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Checklists and illustrative financial statements for not-for-profit organizations : a financial accounting and reporting practice aid, May 1993 edition

American Institute of Certified Public Accountants. Technical Information Division

Moshe S. Levitin

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May 1993 Edition

**Checklists and Illustrative
Financial Statements for
Not-for-Profit Organizations**
A FINANCIAL ACCOUNTING AND
REPORTING PRACTICE AID

AICPA

American Institute of Certified Public Accountants

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Checklists and Illustrative Financial Statements for Not-for-Profit Organizations

A FINANCIAL ACCOUNTING AND REPORTING PRACTICE AID

Edited by

**Moshe S. Levitin, CPA
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Checklists and Illustrative Financial Statements for Not-for-Profit Organizations has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants, or the Financial Accounting Standards Board and has no official or authoritative status.

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR NOT-FOR-PROFIT ORGANIZATIONS

These checklists and illustrative financial statements are designed to be applied to not-for-profit organizations covered in AICPA Statement of Position 78-10 and to voluntary health and welfare organizations. They are not designed to be applied to the financial statements of colleges, universities, hospitals or governmental units.

The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. At the request of certain AICPA members, these checklists and illustrative financial statements are also being made available for purchase by AICPA members subject to their recognition of the following:

- The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements have been updated through SAS No. 72, SSARS No. 7, FASB Statement of Financial Accounting Standards No. 113, FASB Interpretation No. 39, FASB Technical Bulletin No. 90-1, AICPA Statement of Position 93-2, Practice Bulletin 9, and EITF Consensus adopted up to and including the March 16, 1993 Emerging Issues Task Force Meeting. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date also should be considered.
- The checklists and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.
- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosure indicated is required or suggested, and to what extent the disclosure is relevant to the statements being examined.

Users of these checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline (see back cover).

Susan L. Menelaides
Director
Technical Information

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR NOT-FOR-PROFIT ORGANIZATIONS

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INTRODUCTION

The basic financial statements of a not-for-profit organization are a balance sheet and a statement of activity (also referred to as a statement of support, revenue, expenses, capital additions, and changes in fund balances, or similar titles), and a statement of cash flows¹ and/or a statement of functional expenses, depending on whether the organization follows the AICPA Audit and Accounting Guide, Audits of Certain Nonprofit Organizations,¹ or the AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations.² If a reconciliation between beginning and ending fund balances is not included in the statement of activity, a separate statement of changes in fund balances ordinarily would be presented. Many organizations with multiple funds often present comparative totals of all funds for one or more prior periods. The basic financial statements of the current period often are presented on a comparative basis with those of one or more prior periods.

Not-for-profit organizations generally present their expenses classified on a functional basis (according to the purpose for which costs are incurred, such as specific programs and supporting services). In some instances a functional classification is not necessary due to the nature of the organization (e.g., private foundations, cemeteries, and country clubs), and therefore, the object basis (according to their natural classification, such as salaries, employee benefits, and purchased services) is used.

A wide variety of users are interested in the financial statements of not-for-profit organizations. Among the principal users are (1)

¹ Not-for-profit organizations are not subject to FASB Statement No. 95, Statement of Cash Flows. Therefore, they may present either a statement of changes in financial position or a statement of cash flows.

In October, 1992, the FASB issued an exposure draft of a proposed statement, Financial Statements of Not-for-Profit Organizations, that would require all not-for-profit organizations to provide a statement of financial position, a statement of activities, and a statement of cash flows as their basic financial statements. This proposed Statement is expected to be issued at the end of June, 1993. It is expected to be effective for annual financial statements issued for fiscal years beginning after December 15, 1994.

² The AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations, states that because the information that would be presented in a statement of changes in financial position as discussed in Accounting Principles Board Opinion 19 will, in most cases, be readily apparent from other financial statements, such a statement is generally not required.

contributors to the organization, (2) beneficiaries of the organization, (3) the organization's trustees or directors, (4) employees of the organization, (5) governmental units, (6) the organization's creditors and potential creditors, and (7) constituent organizations.

A principal purpose of a not-for-profit organization's financial statements is to communicate the ways resources have been used to carry out the organization's objectives. It requires reporting the nature and amount of available resources, the uses made of the resources, and the net changes in fund balances during the period. In addition, while adequate measures of program accomplishment generally are not available in the context of present financial statements, the financial statements should identify the organization's principal programs and their costs. A third aspect of financial reporting for not-for-profit organizations is disclosure of the degree of control exercised by donors over use of resources. A fourth aspect is that the financial statements of a not-for-profit organization should help the user evaluate the organization's ability to carry out its fiscal objectives.

Many not-for-profit organizations receive resources restricted for particular purposes. To facilitate observance of limitations, the accounts are often maintained using fund accounting, by which resources are classified for accounting and reporting purposes into funds associated with specified activities or objectives. Each fund is a separate accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance, and changes in the fund balance. Although separate accounts are maintained for each fund, the usual practice in preparing financial statements is to group funds that have similar characteristics.

HOW THESE CHECKLISTS APPLY TO NOT-FOR-PROFIT VERSUS VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS

Users of these checklists will notice that some steps are referenced only to the audit guide for nonprofit organizations or SOP 78-10, but not to the voluntary health and welfare organizations guide. Even though these disclosures are not specifically required by the voluntary health and welfare organization guide, users are advised to consider the appropriateness of including them in voluntary health and welfare organizations' financial statements.

Checklists--General

Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins and Interpretations thereof, and to certain other literature described as "established accounting principles." The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

Checklists usually provide for checking off or initialing each question or point to show that it has been considered. The format used in these sections is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "material," "in statements" and "in note" (with provisions for indicating a cross reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

Disclosure checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.

- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

Checklist for Financial Statements and Notes of Not-for-Profit Organizations

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

Explanation of References:

- ARB = Accounting Research Bulletin
- APB = Accounting Principles Board Opinion
- SFAS = Statement of Financial Accounting Standards
- SAS = Statement on Auditing Standards
- FASBI = Financial Accounting Standards Board Interpretation
- TB = Technical Bulletin issued by the staff of the FASB³
- AC = Reference to section number in FASB Accounting Standards Current Text
- AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
- AAG-NPR = AICPA Audit and Accounting Guide, Audits of Certain Nonprofit Organizations (May, 1992)
- AUG-VHW = AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations (July, 1992)
- SOP = AICPA Statement of Position

Some questions in this checklist do not cite a specific authoritative reference but indicate that the disclosure is generally accepted. Most firms disclose that information even though a requirement to do so in the authoritative literature cannot be identified.

CHECKLIST QUESTIONNAIRE

Yes No N/A

I. General

A. Titles and References

1. Are the financial statements suitably titled?
[SAS 62, par. 7 (AU 623.07)]

— — —

³ The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Does each statement include a general reference that the notes are an integral part of the financial statement presentation? [Generally Accepted]	—	—	—
B. Disclosure of Accounting Policies and Other Disclosures			
1. Is a description of all significant accounting policies adopted and followed presented as an integral part of the financial statements? [APB 22, par. 9 (AC A10.103)]	—	—	—
a. Have the organization's accounting policies been disclosed for:			
(1) Grant commitments?	—	—	—
(2) Carrying value of investments?	—	—	—
(3) Carrying value of property, plant, equipment, and collections?	—	—	—
(4) Pledges receivable? [Generally accepted]	—	—	—
2. If the organization prepared its financial statements on a comprehensive basis of accounting other than generally accepted accounting principles (GAAP), was disclosure made of the basis of presentation and how that basis differs from GAAP? [SAS 62, par. 10 (AU 623.10)]	—	—	—
3. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods? [APB 22, par. 12 (AC A10.105)]	—	—	—
4. Do the notes to financial statements disclose the methods used by the organization in valuing, recording,			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
and reporting donated or contributed services? [SOP 78-10, par. 70; AUG-VHW 5.07]	—	—	—
5. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	—	—	—
6. Do the financial statements identify the organization's:			
a. Principal programs?	—	—	—
b. Principal program costs? [SOP 78-10, par. 9]	—	—	—
7. If the organization depends significantly on third-party reimbursement arrangements to carry out its program activities, do the financial statements adequately disclose information related to these arrangements? [AAG-NPR 3.18]	—	—	—
8. Do the financial statements or notes disclose the degree of control exercised by donors over the use of resources? [SOP 78-10, par. 10]	—	—	—
C. Accounting Changes			
1. For an accounting change, does disclosure in the period of the change include:			
a. Nature of the change?	—	—	—
b. Justification for the change and a clear explanation of why the newly adopted principle is preferable?	—	—	—
c. Effect on excess of revenues over expenses? [APB 20, par. 17 (AC A06.113)]	—	—	—

Yes No N/A

2. Is a correction of an error shown as a prior period adjustment with disclosure of the following in the period of its discovery and correction:

a. Nature of the error in previously issued financial statements? _____

b. Effect of its correction on excess of revenues over expenses before and after extraordinary items?
[APB 20, par. 37 (AC A35.105); SFAS 109, par. 228n (AC A35.103)] _____

D. Comparative Financial Statements

1. Have comparative statements been considered?
[ARB 43, Ch. 2A, pars. 1-2 (AC F43.101-.102); SOP 78-10, par. 41] _____

2. Are the notes and other disclosures included in the financial statements of the preceding year(s) repeated, or at least referred to, to the extent that they continue to be of significance?
[ARB 43, Ch. 2A, par. 2 (AC F43.102)] _____

3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed?
[ARB 43, Ch. 2A, par. 3 (AC F43.103)] _____

E. Financial Instruments

1. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed either in the body of the financial statements or in the

Yes No N/A

notes by class of financial instrument?⁴

a. The face or contract amount (or notional principal amount if there is no face or contract amount). _____

b. The nature and terms, including, at a minimum, a discussion of:

(1) The credit and market risk of those instruments. _____

(2) The cash requirements of those instruments. _____

(3) The related accounting policy pursuant to the requirements of APB 22 [AC A10]. _____

[SFAS 105, par. 17 (AC F25.112)]

2. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed either in the body of the financial statements or in the notes by class of financial instrument? _____

a. The amount of accounting loss the organization would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity. _____

b. The entity's policy of requiring collateral or other security to

⁴ Practices for grouping and separately identifying--classifying--similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 [AC F25], "class of financial instrument" refers to those classifications.

Yes No N/A

support financial instruments subject to credit risk, information about the organization's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments.

[SFAS 105, par. 18 (AC F25.113)]

3. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:

a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?

b. The amount of the accounting loss due to credit risk the organization would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the organization?

c. The organization's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the organization's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?

[SFAS 105, par. 20 (AC F25.115)]

Yes No N/A

- | | | | | |
|----|---|---|---|---|
| 4. | Has the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) been disclosed either in the body of the financial statements or in the accompanying notes? ⁵
[SFAS 107, par. 10 (AC F25.115C)] | — | — | — |
| 5. | Have the method(s) and significant assumptions used to estimate the fair value of financial instruments been disclosed?
[SFAS 107, par. 10 (AC F25.115C)] | — | — | — |
| 6. | If it is not practicable to estimate the fair market value of a financial instrument, has the following been disclosed? | | | |
| a. | Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity. | — | — | — |
| b. | The reasons why it is not practicable to estimate fair value.
[SFAS 107, par. 14 (AC F25.115G)] | — | — | — |

F. Nonmonetary Transactions

- | | | | | |
|----|--|---|---|---|
| 1. | Do disclosures for nonmonetary transactions during the period include: | | | |
| a. | Nature of the transactions? | — | — | — |
| b. | Basis of accounting for the assets transferred? | — | — | — |

⁵ For organizations with less than \$150 million in total assets in the current statement of financial position, the effective date for SFAS 107 disclosures is for financial statements issued for fiscal years ending after December 15, 1995. However, earlier application is encouraged.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Gains or losses recognized on the transfers? [APB 29, par. 28 (AC C11.102 and N35.120); FASBI 30 (AC N35.114-.119)]	—	—	—
G. Contingencies and Commitments			
1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)]	—	—	—
2. For loss contingencies not accrued, do disclosures indicate:			
a. Nature of the contingency?	—	—	—
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and C59.111)]	—	—	—
3. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)]	—	—	—
4. Are the nature and amount of guarantees disclosed (for example, of indebtedness of others)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 2-3 (AC C59.114)]	—	—	—
5. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	—	—	—
6. Is there adequate disclosure of commitments such as those for capital expenditures, grants to be awarded to others, restrictive covenants in financing agreements, inventory purchase agreements, and employment contracts? [SFAS 5, pars. 18-19 (AC C59.120)]	—	—	—

Yes No N/A

7. Are encumbrances, appropriations of fund balance, unspecified reserves, and other commitments not meeting the criteria of SFAS 5, par. 8 not reported as expenses or liabilities? [SFAS 5, pars. 14-15 (AC C59.116-.117)] (These may be reported as segregations of fund balance on the balance sheet.)

— — —

8. Are commitments to fund future grants that are not unconditional grants at the balance sheet date disclosed? [SOP 78-10, par. 102]

— — —

H. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence about conditions that existed at the balance sheet date? [SFAS 5, par. 8 (AC C59.105); SAS 1, pars. 560.03-.04, 560.07 and 561.01-.10 (AU 560.03-.04, .07 and 561.01-.10)]

— — —

2. Are subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120) and SAS 1, secs. 560.05-.07, 561.01-.10 (AU 560.05-.07, and 561.01-.10)]

— — —

I. Pension Plans [For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 (AC Pe5)]

1. **If there is a defined benefit plan, do disclosures include:**

a. A description of the plan including employee groups covered, type of benefit formula, funding poli-

Yes No N/A

cy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?
[SFAS 87, par. 54a (AC P16.150a)]

— — —

- b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?⁶
[SFAS 87, par. 54b (AC P16.150b)]

— — —

- c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:

(1) The fair value of plan assets?

— — —

(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?

— — —

(3) The amount of unrecognized prior service cost?

— — —

(4) The amount of unrecognized net gain or loss (including asset

⁶ The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 (AC P16) That net total includes:

- (1) The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)
- (2) Amortization of the net gain or loss from earlier periods
- (3) Amortization of unrecognized prior service cost
- (4) Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
gains and losses not yet reflected in market-related value)?	—	—	—
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)?	—	—	—
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?	—	—	—
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35-36 (AC P16.129-.130) (which is the net result of combining the preceding six items)? [SFAS 87, par. 54c (AC P16.150c)]	—	—	—
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets? [SFAS 87, par. 54d (AC P16.150d)]	—	—	—
e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties? [SFAS 87, par. 54e (AC P16.150e)]	—	—	—
f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
commitment discussed in SFAS 87 paragraph 41 [AC P16.135]? [SFAS 87, par. 54e (AC P16.150e)]	—	—	—
g. If more than one defined benefit plan exists:			
(1) Have the required disclosures above been aggregated for all of the employer's single-employer-defined benefit plans or disaggregated in groups so as to provide the most useful information?	—	—	—
(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets? [SFAS 87, par. 56 (AC P16.153)]	—	—	—
2. If there is a defined contribution plan, do disclosures include:			
a. A description of the plan including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	—	—	—
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	—	—	—
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	—	—	—

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) If answer is "yes," were the required disclosures made for a defined benefit plan? [SFAS 87, par. 66 (AC P16.163)]	—	—	—
3. If there is a multiemployer plan , do disclosures include:			
a. A description of the multiemployer plan, including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 69a (AC P16.166a)]	—	—	—
b. The amount of cost recognized during the period? [SFAS 87, par. 69b (AC P16.166b)]	—	—	—
c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations that either is probable or reasonably possible, have the provisions of SFAS 5 [AC C59] been applied? [SFAS 87, par. 70 (AC P16.167)]	—	—	—
4. If there is a settlement or curtailment of a defined benefit pension plan or of termination benefits under such plan, do disclosures include:			
a. A description of the nature of the event(s)?	—	—	—
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	—	—	—
5. If the organization terminates a defined benefit plan and (1) contributes the assets withdrawn to either a defined contribution plan, (2) the			

Yes No N/A

amount contributed is in excess of the employer's required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, were the following considered:

For a defined contribution plan:

- | | | | | |
|-----|--|-------|-------|-------|
| a. | Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds? | _____ | _____ | _____ |
| b. | Was the unallocated amount treated as if it were part of the employer's investments portfolio and recorded as an asset? | _____ | _____ | _____ |
| (1) | Is the income attributed to such securities including dividends, interest, and realized gains and losses reported in a manner consistent with the employer's reporting of similar items? | _____ | _____ | _____ |

J. Postretirement Benefits Other Than Pensions⁷

1. If there are one or more defined benefit postretirement plans, do disclosures include:
 - a. A description of the substantive plan(s) that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s), and the existence and nature of any commitment to increase monetary benefits provided by the postretirement benefit plan, employee groups covered, types of benefits provided, funding policy, types of

⁷ See Appendix A on page 44.

Yes No N/A

assets held and significant non-benefit liabilities, and the nature and effect of significant matters affecting the comparability of information for all periods presented, such as the effect of a business combination or divestiture?

— — —

b. The amount of net periodic postretirement benefit cost showing separately the service cost component, the interest cost component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or transition asset, and the net total of other components?⁸

— — —

c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:

(1) The fair value of plan assets?

— — —

(2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?

— — —

(3) The amount of unrecognized prior service cost?

— — —

(4) The amount of unrecognized net gain or loss (including plan

⁸ The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106 [AC P40]. That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).
- b. Amortization of unrecognized prior service cost.
- c. Amortization of the net gain or loss from earlier periods.
- d. Any gain or loss recognized due to a temporary deviation from the substantive plan (of SFAS 106, par. 61 [AC P40.156]).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
asset gains and losses not yet reflected in market-related value)?	—	—	—
(5) The amount of any remaining unrecognized transition obligation or transition asset?	—	—	—
(6) The amount of net postretirement benefit asset or liability recognized in the statement of financial position, which is the net result of combining the preceding five items?	—	—	—
d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible charges) for the next year and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved?	—	—	—
e. The weighted-average of the assumed discount rate(s) and rate(s) of compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted-average of the expected long-term rate(s) of return on plan assets?	—	—	—
f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost; and the accumulated postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions should be held constant and the effects should be measured based			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
on the substantive plan that is the basis for the accounting)?	—	—	—
g. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties?	—	—	—
h. Any alternative amortization method used pursuant to paragraph 53 or 60 of SFAS 106 (e.g., a straight-line amortization of the cost over the average remaining years of service to full eligibility for benefits of the active plan participants)? [AC P40.148 or .155]	—	—	—
i. The amount of gain or loss recognized during the period for a settlement or curtailment and a description of the nature of the event(s)?	—	—	—
j. The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)? [SFAS 106, par. 74a-j (AC P40.169a-j)]	—	—	—
2. If more than one defined benefit postretirement plan exists:			
a. Have the disclosures required by Step J.1. above been aggregated for all of an employer's single-employer defined benefit postretirement plans or disaggregated in groups so as to provide the most useful information (except for purposes of the disclosures required by Step J.1.c. above, the aggregate plan assets and the aggregate accumulated postretire-			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
ment benefit obligation of the underfunded plans should be separately disclosed)? [SFAS 106, par. 77 (AC P40.172)]	—	—	—
b. Are plans that provide primarily postretirement healthcare benefits and plans that provide primarily other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all the plans? [SFAS 106, par. 78 (AC P40.173)]	—	—	—
3. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan(s) including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	—	—	—
b. The amount of postretirement benefit cost recognized during the period, if available. Otherwise, the amount of the aggregate required contribution for the period to the general health and welfare benefit plan that provides health and welfare benefits to both active employees and retirees? [SFAS 106, par. 82 (AC P40.178)]	—	—	—
c. Have the provisions of SFAS 5 [AC C59] been applied if the situation arises where withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation and			

Yes No N/A

it is probable or reasonably possible that:

- (1) An employer would withdraw from the plan under circumstances that would give rise to an obligation?

or

- (2) An employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage?

[SFAS 106, par. 83 (AC P40.179)]

4. If there are one or more defined contribution postretirement plans, have the following items been disclosed separately from defined benefit postretirement plan disclosures?

- a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented.

- b. The amount of cost recognized during the period.

[SFAS 106, par. 106 (AC P40.198)]

K. Related Parties

1. Do the financial statements represent one of the following components of a not-for-profit organization, and are presented separately from the financial statements of the organization as a whole:

- a. A branch of the organization?

- b. A separate operation?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. A separate fund?	___	___	___
d. A grant? [AAG-NPR 8.20]	___	___	___
2. If the answer to any of the questions in Step 1 is "yes," do the financial statements or notes of the component disclose the following:			
a. Existence of affiliated or controlling interests?	___	___	___
b. Nature and volume of material transactions (individually or in the aggregate) with related parties?	___	___	___
c. Any services performed or received for a nominal charge or without charge?	___	___	___
d. Any allocations of common expenses?	___	___	___
e. An indication of what part of the organization is included in the component financial statements and what parts are not included? [AAG-NPR 8.22]	___	___	___
3. Affiliated Organizations			
a. If other organizations are affiliated with, or otherwise financially related to, the organization under audit, have combined financial statements been considered? [AAG-NPR 7.01; AUG-VHW 7.07-.11]	___	___	___
b. If combined financial statements are not necessary, is the affiliation disclosed? [AAG-NPR 7.01]	___	___	___
4. With respect to disclosure of related party transactions, has consideration been given to disclosing transactions with chapters, foundations, auxiliaries, guilds, trusts, etc., as well			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
as members of management and the governing board and other organizations with which such parties are affiliated? [SOP 78-10, par. 49]	_____	_____	_____

II. Balance Sheet

A. General

- | | | | |
|--|-------|-------|-------|
| 1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications with totals presented for current assets and current liabilities?
[ARB 43, Ch. 3A; SFAS 78, pars. 5 and 13 (AC B05.103-.109B); SFAS 6, par. 15 (AC B05.118); FASBI 8, (AC B05.117); TB 79-3 (AC B05.501-.503); (SOP 78-10, pars. 23, 24)] | _____ | _____ | _____ |
| 2. Are assets not expected to be realized during the current operating cycle classified as noncurrent?
[ARB 43, Ch. 3A, pars. 5-6 (AC B05.106-.107)] | _____ | _____ | _____ |
| 3. Are valuation allowances contra to such assets as receivables and investments shown as deductions from their related assets with appropriate disclosure?
[APB 12, par. 3 (AC V18.102)] | _____ | _____ | _____ |
| 4. If the organization has restricted resources and elected not to report on a fund accounting basis, are all material restrictions disclosed?
[SOP 78-10, par. 15] | _____ | _____ | _____ |

B. Cash

- | | | | |
|---|-------|-------|-------|
| 1. Is separate disclosure made of restricted cash?
[ARB 43, Ch. 3A, par. 6 (AC B05.107)] | _____ | _____ | _____ |
|---|-------|-------|-------|

Yes No N/A

C. Investments or Marketable Securities

1. FOR ORGANIZATIONS COVERED BY SOP 78-10:

a. If investments in marketable securities are not carried at market value, is the market value for that group as of the balance sheet date disclosed?

[SOP 78-10, par. 79]

___ ___ ___

b. Do the notes to financial statements summarize total realized and unrealized gains and losses and income earned from investments held by all funds except life income and custodial funds?

[SOP 78-10, par. 83]

___ ___ ___

2. FOR VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS:

a. Was the basis of carrying investments the same in all funds and clearly disclosed in the financial statements?

___ ___ ___

(1) If carried at cost, was the total market value of investments at the statement date shown parenthetically for each fund, or disclosed in the notes?

___ ___ ___

(2) If carried at market value, was the cost disclosed parenthetically for each fund or disclosed in the notes?

___ ___ ___

(3) Was the unrealized appreciation (or depreciation) in such investments at the beginning and end of the year disclosed in the notes?

___ ___ ___

[AUG-VHW 2.05]

D. Receivables⁹

- | | | | |
|---|---|---|---|
| 1. Are accounts and notes receivable due from officers, employees, and affiliated organizations shown separately with appropriate disclosures?
[ARB 43, Ch. 1A, par. 5 (AC R36.105)] | — | — | — |
| 2. If a note is noninterest bearing or has an inappropriate stated interest rate: | | | |
| a. Is the discount or premium presented as a deduction from or addition to the face amount of the note? | — | — | — |
| b. Does the disclosure include the effective interest rate and face amount of the note? | — | — | — |
| c. Is amortization of discount or premium reported as interest expense in the income statement?
[APB 21, par. 16 (AC I69.109)] | — | — | — |
| 3. Are allowances for uncollectible receivables shown as deductions from the related receivables, with appropriate disclosure?
[APB 12, par. 3 (AC V18.102)] | — | — | — |

⁹ In November, 1992, the FASB issued an exposure draft (revised) of a proposed Statement of Financial Accounting Standards, Accounting for Contributions Received and Contributions Made, that would change the accounting for contributions as presently set forth in SOP 78-10 and in the Audit of Voluntary Health and Welfare Organizations guide. That exposure draft is expected to be finalized in June, 1993, and is expected to be effective for fiscal years beginning after December 15, 1994. Because the exposure draft was outstanding at the publication date of these checklists, it is not incorporated in these checklists. Practitioners should determine the status of this proposed Statement in applying these checklists.

Yes No N/A

4. Are legally enforceable pledges, grants, and reimbursements receivable, net of allowance for uncollectible amounts, recorded?
[SOP 78-10, pars. 64-66; AAG-NRP 5.07]
[AUG-VHW 4.12 and 4.13]

E. Property and Equipment¹⁰

VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS
OMIT STEP #1.

1. Has the amount of depreciation provided on assets carried at historical cost and the amount, if any, provided on assets carried on a basis other than historical cost been disclosed?
[SOP 78-10, par. 110]
2. Do the financial statements or notes thereto include disclosure of:
- (1) Depreciation expense for each period?
- (2) Balances of major classes of depreciable assets by nature or function?
- (3) Accumulated depreciation, either by major classes of assets or in total?
- (4) The method(s) used in computing depreciation with respect to major classes of depreciable assets?
[SFAS 93, par. 5 (AC D40.105); SOP 78-10, par. 108]
3. Is the amount of capitalized interest disclosed?
[SFAS 34, par. 21 (AC I67.118)]

¹⁰ See footnote 9.

VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS
OMIT STEP F.

F. Collections of Works of Art and Similar Items¹¹

1. If the organization has inexhaustible collections usually associated with museums, art galleries, botanical gardens, libraries or similar entities and if such collections are not capitalized, does the caption "Collections" appear on the balance sheet with no amount shown, but with a reference to a note that describes the collection?

[SOP 78-10, par. 113]

— — —

2. Do the financial statements disclose the cost or contributed value of current period accessions and the nature of and proceeds from deaccessions?

[SOP 78-10, par. 114]

— — —

G. Other Assets and Deferred Charges

1. Do disclosures include the method and period of amortization of intangible assets?

[APB 17, pars. 27-31 (AC I60.108-.112); APB 22 par. 13 (AC A10.106)]

— — —

2. Has an asset (prepaid pension cost) been recognized if net periodic pension cost is less than amounts the employer has contributed to the plan?

[SFAS 87, pars. 35 & 38 (AC P16.129 and .132)]

— — —

3. If an additional minimum liability has been recognized pursuant to SFAS 87, paragraph 36 [AC P16.130], has an equal amount been recognized as an intangible asset, provided that the asset recognized did not exceed the

¹¹ See footnote 9.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
amount of unrecognized prior service cost? [SFAS 87, pars. 37-38 (AC P16.131 and .132)]	—	—	—
H. Interfund Borrowings			
1. Were restricted funds used in inter-fund borrowings, or any liquidity problems in either fund, disclosed?	—	—	—
2. When funds for repayment are not available, have such borrowings been considered permanent and recorded as transfers? [SOP 78-10, par. 118]	—	—	—
I. Current Liabilities			
1. Do current liabilities include:			
a. Obligations for items that have entered the operating cycle?	—	—	—
b. Collections received in advance of the delivery of goods or performance of services?	—	—	—
c. Debts that arise from operations directly related to the operating cycle?	—	—	—
d. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short time period?	—	—	—
e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period? [ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109); SFAS 78, par. 5 (AC B05.109A and B05.118)]	—	—	—
2. Do current liabilities exclude short-term obligations that the entity			

Yes No N/A

intends to refinance on a long-term basis, provided the entity has demonstrated the ability to consummate the long-term financing?

[SFAS 6, pars. 9-14 (AC B05.113-.116);
FASBI 8 (AC B05.117 and B05.138-.139)]

J. Notes Payable and Other Debt

1. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures such as assets pledged as collateral, etc.?

[SFAS 5, pars. 18-19 (AC C59.120); and
Generally accepted]

2. Are the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented?

[SFAS 47, par. 10b (AC C32.105b)]

3. If a note is noninterest bearing or has an inappropriate stated interest rate:

- a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?

- b. Does the disclosure include the effective interest rate and face amount of the note?

- c. Is amortization of the discount or premium reported as interest in the income statement?

- d. Are issue costs reported in the balance sheet as deferred charges?

[APB 21, par. 16 (AC I69.109)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7-8 (AC B05.108 -.109)]	—	—	—
5. If a short-term obligation is to be excluded from current liabilities per SFAS 6, do disclosures include:			
a. General description of the financing agreement?	—	—	—
b. Terms of any new obligation incurred or expected to be incurred, as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]	—	—	—
K. Lessee Leases			
1. For capital leases, do disclosures include:			
a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented? [SFAS 13, par. 16a (AC L10.112a (1))]	—	—	—
b. Future minimum lease payments as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, par. 16a (AC L10.112a (2))]	—	—	—
c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a (3))]	—	—	—

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a (4))]	—	—	—
e. Separate identification of:			
1. Assets recorded under capital leases?	—	—	—
2. Accumulated amortization of capital leases?	—	—	—
3. Obligations under capital leases?	—	—	—
4. Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112a (5))]	—	—	—
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			
a. Future minimum rental payments required as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	—	—	—
b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	—	—	—
3. For all operating leases, do disclosures include: rental expense for each period for which a statement of activity (or revenue and expenses, etc.) is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	—	—	—

Yes No N/A

4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:

a. Bases for determining contingent rentals? _____

b. Terms of any renewal or purchase options or escalation clauses? _____

c. Restrictive covenants?
[SFAS 13, par. 16d (AC L10.112d)] _____

L. Other Liabilities and Deferred Credits

1. Are grants that are subject to periodic renewal recorded as expenses and liabilities at renewal with disclosure of the remaining commitment?
[SOP 78-10, par. 102] _____

VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS
OMIT STEP #2.

2. Are balances of unexpended restricted gifts, grants and bequests reported as deferred revenue and support on the balance sheet?
[SOP 78-10, par. 62] _____

M. Trust Funds and Gifts of Future Interests

1. Are funds held in trust by others, and that are not under the control of the organization, disclosed in the notes (and omitted from the balance sheet)?
[SOP 78-10, par. 122] _____

2. Is significant income from such trusts reported separately?
[SOP 78-10, par. 122] _____

3. Is the basis of valuing gifts of future interests, e.g., life income and annuity gifts, and interest-free loans disclosed?
[AAG-NPR 4.27] _____

Yes No N/A

N. Fund Balances

1. Are unrestricted fund balances, designated for a specific purpose by the governing board of the organization, segregated on the balance sheet?
[SOP 78-10, par. 120]

III. **Statement of Activity (or Statement of Revenue and Expenses, or Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances)**

A. Fund Accounting

1. Does the statement of activity include the activity in the unrestricted, restricted, plant and endowment funds, as well as other capital funds that represent resources of the organization?
[SOP 78-10, par. 26]

2. Does the statement of activity disclose all legally unrestricted income, expenses, and fund balances on a functional basis if the organization receives significant support from the general public in the form of contributions?
[SOP 78-10, par. 85-88; AUG-VHW 6.01-.03]

3. Have restricted contributions that possess many of the characteristics of capital, and that cannot be spent for program or supporting services, been recorded as "capital additions" or "nonexpendable additions?"
[SOP 78-10, par. 28]

4. Has the organization complied with all restrictions imposed by donors or other third parties, and are significant restrictions disclosed in the financial statements?
[SOP 78-10, par. 59]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. If a columnar format is used, do the statements show a total all-funds column? (Alternative formats are acceptable) [SOP 78-10, pars. 37, 39]	—	—	—
6. If there are capital additions, are captions for the excess (deficiency) of revenue and support over expenses, both before and after capital additions, shown? [SOP 78-10, pars. 30-31]	—	—	—
B. Taxes			
1. Is the organization subject to federal excise tax on investment income or to federal and state income taxes on unrelated business income?	—	—	—
2. If the answer is "yes" and temporary differences exist, has interperiod allocation of taxes been made and disclosed? [SOP 78-10, par. 103]	—	—	—
C. Transfers			
1. Are transfers of resources among fund groups reported as changes in fund balances under the caption "fund balance at beginning of period"? [SOP 78-10, par. 104]	—	—	—
<u>ORGANIZATIONS COVERED UNDER SOP 78-10 OMIT STEP #2.</u>			
2. Is the amount of realized (and, when applicable, unrealized) investment gains included in endowment funds that are available for transfer to the unrestricted fund at the discretion of the governing board, and the authority on which such funds may be transferred, disclosed? [AUG-VHW 2.12]	—	—	—

Yes No N/A

D. Third-Party Reimbursements

1. If the organization depends significantly on third-party reimbursement arrangements to carry out its program activities, do the financial statements adequately disclose these arrangements?
[AAG-NPR 3.18]

E. Donated or Contributed Services

1. Do the notes to financial statements disclose the methods used by the organization in valuing, recording and reporting donated or contributed services?
[SOP 78-10, par. 70; AUG-VHW 5.07]
2. Do the notes indicate which donated or contributed services have been recorded and which have not been recorded?
[SOP 78-10, par. 70; AUG-VHW 5.07]

F. Donated Materials and Facilities

1. If donated materials merely pass through the organization to its charitable beneficiaries, and the organization is only an agent for the donors, has that donation not been recorded as a contribution?
[SOP 78-10, par. 71; AUG-VHW 5.03]

G. Subscription and Membership Income

1. If dues, assessments and nonrefundable initiation fees are in substance contributions and services are not to be provided to the member, are they recognized as revenue in the period the organization is entitled to them?
[SOP 78-10, par. 84]

H. Fund Raising¹²

- | | | | |
|--|---|---|---|
| 1. If the organization receives significant support from the general public, are the expenses reported on a functional basis presenting separately expenses for program services, fund-raising, membership development, costs incurred in soliciting grants, and management and general activities?
[SOP 78-10, pars. 85-87, and 96; AUG-VHW 6.02-6.07] | — | — | — |
| 2. If revenue from fund-raising affairs is reported net of expenses, are such expenses disclosed?
[SOP 78-10, par. 93; AUG-VHW 8.01] | — | — | — |
| 3. Is the total cost of all fund-raising activities disclosed whether the organization reports expenses on a functional basis or some other basis?
[SOP 78-10, par. 94; AUG-VHW 6.13] | — | — | — |
| 4. Do fund-raising expenses include any applicable portion of management salaries, depreciation, and other occupancy expenses?
[SOP 78-10, par. 98; AUG-VHW 6.10] | — | — | — |
| 5. Is the total support received and the related fund-raising costs for the period disclosed?
[SOP 78-10, par. 100; AUG-VHW 6.13] | — | — | — |
| 6. If joint costs of informational materials and activities that include | | | |

¹² At the date of publication of these checklists, the AICPA was expected shortly to issue an exposure draft of a proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal.

The proposed SOP would apply to all not-for-profit organizations that report expenses by function and would require reporting the costs of all materials and activities that include a fund-raising appeal as fund-raising expenses, unless a bona-fide program or management and general function has been conducted in conjunction with the appeal for funds.

Yes No N/A

fund-raising appeals have been incurred and allocated between fund-raising and the appropriate program or management and general function, have the following been disclosed?

— — —

a. The fact that such costs have been allocated.

— — —

b. The total amount allocated during the period.

— — —

c. The portion allocated to each functional expense category.

— — —

[SOP 87-2, par. 22; AUG-VHW 6.11]

I. Gifts of Future Interest

1. Annuity Gifts

a. Has the present value of the actuarially determined liability resulting from such gifts been recorded at the date of the gifts?

— — —

b. Has any excess or deficiency in the amount of an annuity gift over the liability been recorded as support in the year of the gift if it may be used immediately for the general purpose of the organization?

— — —

c. If this was not done, has the excess been reported as deferred revenue if it is restricted for specific purposes?

— — —

d. Has the amount previously recorded as deferred support been reflected as support or a capital addition at the future date when the terms of the annuity were met?

— — —

[SOP 78-10, par. 121]

2. Life Income Gifts

a. For the principal amount of life income gifts where the donor reserves the right to the income

Yes No N/A

from the gift for life or some other stipulated period, has this principal amount been recorded as deferred support in the balance sheet in the period the gift was received?

— — —

- b. Has the amount previously recorded as deferred support been reflected as support or a capital addition when the terms of the life income gift were met?

— — —

[SOP 78-10, par. 121]

3. Funds Held in Trust

- a. Is significant income from funds held in trust reported separately?

— — —

[SOP 78-10, par. 122]

VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS
OMIT STEP #4.

4. Restricted Gifts, Grants, Bequests, and Other Income

- a. Do the notes disclose the changes in deferred restricted amounts of gifts, grants, bequests, and other income?

— — —

[SOP 78-10, Exhibit 1D, Note 6]

J. Expenses

1. Has a reasonable allocation of the organization's functional expenses been made to various programs and supporting services, and has the method of these allocations been disclosed?¹³

— — —

[SOP 78-10, par. 100; AUG-VHW, Ch. 6]

2. For deferred compensation agreements, are estimated amounts to be paid properly accrued?

— — —

[APB 12, pars. 6-7 (AC C38.101-.102)]

¹³ See footnote 12.

K. Wills or Trusts

- a. If the organization is certain to receive sizeable but indeterminable amounts under a will or trust, did the organization make adequate disclosure in a note to the financial statements regardless of the period of time estimated to elapse before the date of receipt? (Care should be exercised to avoid misleading implications as to the likelihood of realization.)
[SFAS 5, par. 17 (AC C59.118); SAS 32 (AU 431.02)]

— — —

IV. Additional Financial Statements

FOR ORGANIZATIONS COVERED BY SOP 78-10:

A. Statement of Changes in Financial Position¹⁴

1. Is a statement of changes in financial position presented as a basic financial statement for each period for which a statement of activity (or statement of support, revenue and expenses) is presented?
[SOP 78-10, pars. 16 and 17; Exhibit 1C]
2. Does the statement of changes in financial position disclose all financing and investing activities including capital additions, and changes in deferred support and revenue?
[SOP 78-10, par. 34]

— — —

— — —

B. Statement of Cash Flows¹⁵

1. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of

¹⁴ See Footnotes 1 and 2 on Page 1.

¹⁵ Ibid.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
activity (or statement of support, revenue and expenses) is presented? [SFAS 95, par. 3 (AC C25.101)]	—	—	—
2. Do the notes disclose the organization's accounting policy for determining which items are treated as cash equivalents? [SFAS 95, par. 10 (AC C25.108)]	—	—	—
3. Are the effects of investing and financing transactions that affect the organization's financial position but do not directly affect cash flows during the period disclosed? [SFAS 95, par. 6 (AC 25.104)]	—	—	—
4. Does the statement of cash flows separately report:			
a. Cash received from contributors?	—	—	—
b. Cash received from service recipients?	—	—	—
c. Interest and dividends received?	—	—	—
d. Cash collected on pledges?	—	—	—
e. Other operating cash receipts (if any)?	—	—	—
f. Cash paid to employees and suppliers?	—	—	—
g. Grants paid?	—	—	—
h. Interest paid?	—	—	—
i. Other operating cash payments (if any)? [SFAS 95, par. 27 (AC C25.125)]	—	—	—
5. If the direct method is used, is a separate reconciling schedule provided to reconcile Net Income to Net Cash Used or Provided by Operating Activities? [SFAS 95, par. 29 (AC C25.127)]	—	—	—

Yes No N/A

6. Have investing and financing activities that affect recognized assets or liabilities but that do not result in cash receipts or cash payments in the period been disclosed?
[SFAS 95, par. 32 (AC C25.134)]

____ ____ ____

FOR VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS:

C. Statement of Functional Expenses

1. Is a statement of functional expenses presented as a basic financial statement for each period for which a statement of support, revenue, and expenses is presented?
[AUG-VHW 6.17]
2. Does the statement of functional expenses contain sufficient information to enable a reader to obtain a general understanding of the nature of the costs of carrying out the organization's activities?
[AUG-VHW 6.17]

____ ____ ____

____ ____ ____

V. Tax Status

1. If the organization's tax-exempt status is in question by the IRS, is the potential impact disclosed in a note?
[SFAS 5, pars. 1 and 39 (AC C59.101 and .145)]

____ ____ ____

Appendix A

The effective date of SFAS 106 is for fiscal years beginning after December 15, 1992, except for plans outside the United States, and for defined benefit plans of employers that (a) are nonpublic entities and (b) sponsor-defined benefit postretirement plan(s) with no more than 500 plan participants in the aggregate, in which case the effective date is for fiscal years beginning after December 15, 1994. Earlier application is encouraged. If the not-for-profit organization has 500 or fewer plan participants and does not elect early application, the following disclosures remain in effect:

- Postretirement Health Care and Life Insurance Benefits

1. Do disclosures include:

- | | | | |
|---|-----|-----|-----|
| a. Description of benefits and employee groups covered? | ___ | ___ | ___ |
| b. Description of accounting and funding policies? | ___ | ___ | ___ |
| c. Cost of benefits recognized during the period unless the provisions of Question #2 apply? | ___ | ___ | ___ |
| d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented?
[SFAS 81, par. 6 (AC P50.102)] | ___ | ___ | ___ |

- | | | | |
|---|-----|-----|-----|
| 2. If the cost of any postretirement health care or life insurance benefit cannot readily be separated from the cost of providing such benefits for active employees or otherwise be reasonably approximated, is the total cost of providing those benefits to both active employees and retirees as well as the number of active employees and the number of retirees covered by the plan disclosed?
[SFAS 81, par. 7 (AC P50.103)] | ___ | ___ | ___ |
|---|-----|-----|-----|

Checklist for Auditor's Reports on Audits of Financial Statements of Not-for-Profit Organizations Performed Under Generally Accepted Auditing Standards

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

Explanation of References:

- SAS = Statement on Auditing Standards
AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
AAG-NPR = AICPA Audit and Accounting Guide, Audits of Certain Nonprofit Organizations
SOP = AICPA Statement of Position
AUG-VHW = AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations

CHECKLIST QUESTIONNAIRE

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the auditor's report include the appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	___	___	___
b. Date (or dual dates) of the report? [SAS 1, sec. 530 (AU 530); SAS 58, pars. .08 and .46 (AU 508.08 and .46)]	___	___	___
c. Title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	___	___	___
2. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period?	___	___	___
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08)]	___	___	___
3. Does the report include appropriate language with respect to the following:			
a. Report on only one basic financial statement, and there are no scope limitations? [SAS 58, pars. 47-48 (AU 508.47-.48)]	___	___	___

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Report on comparative statements of activity (or of support revenue and expenses), and changes in fund balances? [SAS 58, pars. 74-83 (AU 508.74-.83)]	—	—	—
c. Part of the audit was made by other independent auditors and the principal auditor is indicating a division of responsibility for the audit in his report? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12-13 (AU 508.12-.13)]	—	—	—
d. The financial statements contain a departure from a promulgated accounting principle when conformity would result in a misleading presentation? [SAS 58, pars. 14-15 (AU 508.14-.15)]	—	—	—
e. Updating of a previously issued report? [SAS 58, pars. 77-78 (AU 508.77-.78)]	—	—	—
f. Comparative financial statements with differing opinions? [SAS 58, pars. 74-76 (AU 508.74-.76)]	—	—	—
g. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14-17 (AU 504.14-.17)]	—	—	—
h. The auditor decides to emphasize a matter? [SAS 58, par. 37 (AU 508.37)]	—	—	—
4. Has explanatory language been added to the standard auditor's report if:			
a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the report? [SAS 58, pars. 16-33 (AU 508.16-.33)]	—	—	—
b. The auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time? (That conclusion must be expressed through the use of the			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
phrase "substantial doubt about the organization's ability to continue as a going concern.") [SAS 64, par. 1 (AU 341.12)]	—	—	—
c. There has been a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34-36 (AU 508.34-.36)]	—	—	—
d. In an updated report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed? [SAS 58, pars. 77, 78 and 81-83 (AU 508.77-.78 and .81-.83)]	—	—	—
e. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	—	—	—
f. A matter regarding the financial statements needs to be emphasized? [SAS 58, par. 37 (AU 508.37)]	—	—	—
5. If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor indicated in the introductory paragraph:			
a. That the financial statements of the prior period were audited by another auditor?	—	—	—
b. The date of the predecessor auditor's report?	—	—	—
c. The type of report issued by the predecessor auditor?	—	—	—
d. If the report was other than a standard report, the substantive reasons therefor? [SAS 64, par. 2 (AU 508.83)]	—	—	—
6. If the financial statements have been restated, does the introductory paragraph indicate that a predecessor auditor reported on the financial			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
statements of the prior period before restatement? [SAS 64, par. 2 (AU 508.83)]	—	—	—
7. If the successor auditor is engaged to audit and applies sufficient procedures to satisfy himself or herself as to the appropriateness of the restatement adjustments, did he or she report on it in accordance with SAS No. 64, par. 2? [SAS 64, par. 2 (AU 508.83)]	—	—	—
8. Has a qualified opinion or disclaimer of opinion been expressed if:			
a. Scope limitations precluded application of one or more auditing procedures considered necessary in the circumstances? [SAS 58, pars. 40-45 (AU 508.40-.45); SAS 31, par. 22 (AU 326.23)]	—	—	—
b. The organization has inadequate internal control structure policies and procedures over contributions and there is a significant risk that such revenue may be materially underrecorded? [AUG-VHW 4.15; AAG-NPR 8.06-.07]	—	—	—
9. Has a qualified opinion or adverse opinion been expressed if there is a lack of conformity with generally accepted accounting principles (including inadequate disclosure)? [SAS 58, pars. 49-66 (AU 508.49-.66); SAS 54, par. 18; (AU 317.18); SAS 32, par. 3 (AU 431.03)]	—	—	—
10. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed:			
a. Are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 58, pars. 39, 68, and 71 (AU 508.39, .68, and .71)]	—	—	—
b. Is the reporting language clear and appropriate for the:			
(1) Qualified opinion? [SAS 58, pars. 38-66 (AU 508.38-.66)]	—	—	—

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Adverse opinion? [SAS 58, pars. 67-69 (AU 508.67-.69)]	—	—	—
(3) Disclaimer of opinion? [SAS 58, pars. 70-72 (AU 508.70-.72)]	—	—	—
11. Does the report include modification, if applicable, for the following:			
a. Conditions that precluded application of necessary auditing procedures to opening inventories or long-term investments? [SAS 58, par. 42 (AU 508.42)]	—	—	—
b. Client representations about related-party transactions? [SAS 45, par. 2 (AU 334.12)]	—	—	—
c. Client's refusal to provide written representation? [SAS 19, par. 11 (AU 333.11)]	—	—	—
d. Limitations on scope of lawyer's response? [SAS 12, pars. 12-14 (AU 337.12-.14)]	—	—	—
e. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	—	—	—
f. Irregularities that materially affect the financial statements? [SAS 53, par. 26 (AU 316.26)]	—	—	—
g. Illegal acts by clients? [SAS 54 (AU 317)]	—	—	—
h. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	—	—	—
i. Financial statements issued before the effective date of a Statement of Financial Accounting Standards when disclosure is not made of the effect of a restatement which will be required in the future as a result of the FASB Statement? [Interpretation 3 of SAS 1, section 410 (AU 9410.13-.15)]	—	—	—
12. Has a piecemeal opinion been avoided if a disclaimer of opinion or an adverse opinion has			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
been issued on the financial statements taken as whole? [SAS 58, par. 73 (AU 508.73)]	—	—	—
13. If information is to accompany the basic financial statements in an auditor-submitted document:			
a. Is there a clear distinction between the client's representations and auditor's? [SAS 29, par. 20 (AU 551.20)]	—	—	—
b. Does the auditor's report on the accompanying information:			
(1) State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole?	—	—	—
(2) Specifically identify the accompanying information?	—	—	—
(3) State that the accompanying information is presented for purposes of analysis and is not part of the basic financial statements?	—	—	—
(4) State whether the additional information has been subjected to the auditing procedures applied in auditing the basic financial statements? [SAS 29, pars. 6-11 (AU 551.06-.11)]	—	—	—
14. If an auditor-submitted document with accompanying information is co-existing with a document that includes just the basic financial statements and auditor's report, do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [SAS 29, par. 21 (AU 551.21)]	—	—	—
15. If a report on internal control structure is to be issued, is the appropriate form used for:			
a. Expression of an opinion on the organization's internal control structure in			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
effect as of a specified date or during a specific period of time? [SAS 30, pars. 37-46 (AU 642.37-.46)]	—	—	—
b. Report on all or part of an entity's internal control structure for restricted use of management or specified regulatory agencies, based on the regulatory agencies' preestablished criteria? [SAS 30, pars. 54-59 (AU 642.54-.59)]	—	—	—
c. Other special-purpose reports on all or parts of the entity's internal control structure for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60-61 (AU 642.60-.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]	—	—	—
16. If reporting on selected financial data included in a client-prepared document that contains audited financial statements and the data is derived from the audited financial statements, does the auditor's report indicate the following:			
a. That he or she has audited and expressed an opinion on the complete financial statements?	—	—	—
b. The type of opinion expressed?	—	—	—
c. The specific data on which he or she is reporting?	—	—	—
d. Whether, in his or her opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 9 (AU 552.09)]	—	—	—
17. If the selected financial data for any of the years presented are derived from financial statements that were audited by another inde-			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
pendent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)]	—	—	—
18. If the auditor is reporting on financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles, has the auditor considered whether the financial statements (including the accompanying notes) include all informative disclosures appropriate for the basis of accounting used? [SAS 62, pars. 9-10 (AU 623.09-.10)]	—	—	—
19. If the auditor noted reportable conditions in the organization's internal control structure, was a report made (either in writing or orally) to the audit committee or to individuals with an equivalent level of authority? [SAS 60, pars. 9-19 (AU 325.09-.19)]	—	—	—
20. If the organization has an audit committee or has otherwise <u>formally</u> designated oversight of the financial reporting process to a group equivalent to an audit committee, has the following been communicated to that committee, as applicable?	—	—	—
a. Significant accounting policies.	—	—	—
b. Management judgments and accounting estimates.	—	—	—
c. Significant audit adjustments.	—	—	—
d. Other information in documents containing audited financial statements.	—	—	—
e. Disagreements with management.	—	—	—
f. Consultation with other accountants.	—	—	—
g. Major issues discussed with management prior to retention.	—	—	—
h. Difficulties encountered in performing the audit. [SAS 61, pars. 6-14 (AU 380.06-.14)]	—	—	—

Yes No N/A

21. If the organization uses Internal Revenue Form 990, "Return of Organizations Exempt from Income Tax" as a uniform annual report by a charitable organization to a state government as well as the Federal government:

a. Are the financial statements included in the report presented fairly in conformity with GAAP?

[Interpretation 10 of SAS 62, Section 623 (AU 9623.47)]

(1) If the financial statements are not in conformity with GAAP, was the issuance of a special report considered?

[Interpretation 10 of SAS 62, Section 623 (AU 9623.50 and .52)]

(2) If the financial statements are not in conformity with GAAP, and there is public distribution of the report, did the auditor express a qualified or adverse opinion and disclose the effects on the financial statements of the GAAP departures (if reasonably determinable)?

Checklist for Auditors' Reports on Audits Performed Under Government Auditing Standards and Under OMB Circular A-133¹

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page i is incorporated herein by reference.

This checklist has two parts: Part I is for audit reports related to audits performed under Government Auditing Standards ("Yellow Book"). Part II contains the additional requirements for reports on audits performed in accordance with OMB Circular A-133. For audits performed under Circular A-133, both Parts I and II of this checklist must be completed.

Explanation of References:

- A-133 = Office of Management and Budget (OMB) Circular A-133
- GAS = Government Auditing Standards ("Yellow Book", issued by GAO, 1988 Revision)
- SAS = Statement on Auditing Standards
- AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
- SOP 92-9 = AICPA Statement of Position, Audits of Not-for-Profit Organizations Receiving Federal Awards

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- 1 On March 8, 1990, The Office of Management and Budget issued Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions, to implement a "single audit" requirement for nonprofit institutions. Circular A-133 requires that the auditor perform the audit in accordance with Government Auditing Standards (the "Yellow Book") issued by the Comptroller General of the United States.

SAS No. 68, Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance, provides guidance on planning, performing, and reporting on the compliance aspects of audits in accordance with GAAS, GAO Standards, Circular A-133 and Circular A-128, which applies to State and Local Governmental entities.

On December 28, 1992, the AICPA issued SOP 92-9, Audits of Not-for-Profit Organizations Receiving Federal Awards, to provide guidance on the auditor's responsibilities when conducting an audit in accordance with Circular A-133. It incorporates the guidance in SAS No. 68, SOP 92-7, OMB's October 1991 Compliance Supplement for Audits of Institutions of Higher Learning and Other Non-Profit Institutions, and the President's Council on Integrity and Efficiency Standards Subcommittee's Position Statement No. 6 [A-133 Questions and Answers].

CHECKLIST QUESTIONNAIRE

Yes No N/A

PART I - REPORTS ON AUDITS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (THE "YELLOW BOOK")

1. In an audit performed in accordance with the Yellow Book, are the following reports issued?
- a. A report on the organization's basic financial statements.¹ ___ ___ ___
 - b. A report on internal control structure. ___ ___ ___
 - c. A report on compliance with laws and regulations that may have a direct and material effect on the basic financial statements. ___ ___ ___
[SOP 92-9, par. 7.2]
2. Does each auditor's report listed in Step No. 1 contain a statement that the audit was conducted in accordance with generally accepted auditing standards and the Yellow Book? ___ ___ ___
[GAS, Ch. 5, par. 3; SOP 92-9, par. 7.4]

Report on Internal Control Structure²

3. Does the report on internal control structure include, at a minimum:
- a. A statement that the auditor obtained an understanding of the internal control structure, and assessed control risk? ___ ___ ___
 - b. The significant internal controls established to ensure compliance with laws and regulations that have a material impact on the financial statements? ___ ___ ___
 - c. Any reportable conditions, including separate identification of material weaknesses, ___ ___ ___

¹ See checklist for auditor's reports on the basic financial statements beginning on page 45.

² Under the Yellow Book, a report on the internal control structure is required in all audits, even if no reportable conditions were noted. Also, the matters contained in this report are beyond those required to be communicated under SAS 60 (AU 325) in a GAAS audit. [SAS 68, par. 33 (AU 801.33)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
identified as a result of the auditor's work in understanding and assessing the control risk?	—	—	—
d. A statement that the report is intended for the information of the audit committee, management, and specific legislative or regulatory bodies, but that this restriction is not intended to limit the distribution of the report, if a matter of public record? [GAS, Ch. 5, pars. 17 and 18; SAS 68, pars. 33 and 40 (AU 801.33 and .40); SOP 92-9, Appendix D, Exhibit D-3]	—	—	—
4. If the auditor has noted reportable conditions in the financial statement audit, does the auditor's report on the internal control structure also contain:			
a. The definition of reportable conditions?	—	—	—
b. A description of the reportable conditions noted?	—	—	—
c. The definition of material weakness?	—	—	—
d. If applicable, a statement that other matters involving the internal control structure and its operation were communicated to management in a separate letter? [SAS 68, par. 40 (AU 801.40)]	—	—	—
5. If material weaknesses are noted in the report, did the auditor disclose the condition, cause, criteria, and effect of those material weaknesses? [GAS, Chap. 5, par. 9, footnote 7]	—	—	—
6. If the auditor determined that deficiencies in the internal control structure are not significant enough to be considered reportable conditions (referred to as "nonreportable conditions"), have those matters been communicated to the organization in writing (or orally, with working paper documentation)? [SAS 68, pars. 33 and 39 (AU 801.33 and .39); GAS Chap. 5, par. 25]	—	—	—
7. If the auditor issues a separate written communication describing nonreportable conditions,			

Yes No N/A

does the auditor's report on the internal control structure refer to that separate communication?

[SAS 68, pars. 38 and 39 (AU 801.38-.39); SOP 92-9, par. 7.12]

— — —

8. If no reportable conditions were noted during the audit, does the report disclose that no material weaknesses were identified?

[SAS 68, par. 42 (AU 801.42), SOP 92-9, par. 7.11]

— — —

Report on Compliance With Laws and Regulations

9. Does the report on compliance with laws and regulations conform to the standard report illustrated in SAS 68, par. 25 (AU 801.25) and in Exhibits D-4 to D-7 in Appendix D of SOP 92-9?

10. In rare circumstances in which the auditor has decided not to test compliance with laws and regulations, does the report contain a statement that compliance with laws and regulations was not tested?

[SAS 68, par. 26 (AU 801.26) GAS, Chap. 5, par. 6]

— — —

11. If the auditing procedures disclosed material instances of noncompliance, was the report on compliance appropriately modified?

[SAS 68, par. 27 (AU 801.27)]

— — —

a. Does that modified report include:

(1) The definition and identification of material instances of noncompliance noted?

— — —

(2) A statement that the noncompliance noted was considered in forming an opinion on whether the organization's financial statements are presented fairly, in conformity with generally accepted accounting principles?

— — —

[SAS 68, par. 27 (AU 801.27)]

12. If the report contains material instances of noncompliance, was a statement considered about:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Whether the misstatements have been corrected? or	—	—	—
b. The effect of such misstatements on the auditor's report on the basic financial statements? [SAS 68, par. 28 (AU 801.28)]	—	—	—
13. Are immaterial instances of noncompliance reported in a separate communication to the organization? ³ [SAS 68, pars. 29 and 95 (AU 801.29 and .95) GAS, Chap. 5, par. 8]	—	—	—
14. If the auditor issued a separate letter describing immaterial instances of noncompliance, did the compliance report include a reference to that letter? [SAS 68, pars. 29 and 30 (AU 801.29 and .30), SOP 92-9, par. 7.16]	—	—	—
15. If the auditor became aware of illegal acts or of possible illegal acts, have they been communicated to management? [SAS 68, par. 31 (AU 801.31); GAS, Chap. 5, par. 5]	—	—	—
16. If the auditor became aware of illegal acts and remains uncertain about whether they will materially affect the financial statements, was the report qualified or a disclaimer of opinion issued? [SOP 92-9, par. 7.18]	—	—	—
Other Matters			
17. If performance audits are required by contractual obligations, are findings presented in accordance with the guidance in the Yellow Book? [GAS, Ch. 2, pars. 6-10]	—	—	—
18. If the auditor is unable to follow an applicable standard and is unable to withdraw from the engagement, did the auditor disclose in the scope			

³If there are no immaterial instances of noncompliance, the auditor may so note in the report. [SOP 92-9, par. 7.24]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>section of the report the fact that an applicable standard was not followed, the reasons therefor, and the known effect of not following the standard on the results of the audit? [GAS, Ch. 3, par. 27]</p>	—	—	—
<p>19. Does the auditor's report disclose the status of known but uncorrected significant or material findings and recommendations from prior audits that could have an effect on the current audit objective? [SAS 68, par. 20, footnote 10 (AU 801.20); GAS, Ch. 3, par. 41, SOP 92-9, par. 7.41]</p>	—	—	—
<p>20. Did the auditor consider the impact on his or her report of the effects of noncompliance findings from other simultaneous audits that may result in claims for refunds? [SOP 92-9, par. 7.43; See also SFAS 5 (AC C59)]</p>	—	—	—
<p>21. Do the reports on the schedule of federal awards, compliance, and internal control structure carry the same date as the report on the basic financial statements? [SOP 92-9, par. 7.27]</p>	—	—	—

Yes No N/A

**PART II - REPORTS ON AUDITS PERFORMED UNDER OMB
CIRCULAR A-133**

1. If the organization is subject to the requirements of Circular A-133, are the following additional reports issued?

a. A report on a supplementary schedule of the entity's federal awards.¹

___ ___ ___

b. A report on the internal control policies and procedures used to administer federal awards.

___ ___ ___

c. A report on compliance with specific laws and regulations that may have a direct and material effect on each major program.

___ ___ ___

d. A report on compliance with certain laws and regulations applicable to nonmajor programs.²

___ ___ ___

e. A report on compliance with general requirements.³
[SOP 92-9, par. 7.19]

___ ___ ___

2. Does each auditor's report listed in step no. 1 contain a statement that the audit was conducted in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133?

___ ___ ___

[SOP 92-9, Appendix D, Exhibits D-8 through D-18]

¹ Under Circular A-133, a recipient or subrecipient of an award is required to prepare a schedule of federal awards. A sample schedule is presented in Appendix E of SOP 92-9. [Attachment to Circular A-133, par. 15(c)(1), SOP 92-9, pars. 4.7 and 7.20]

² If the entity has no nonmajor programs, or if the auditor has not selected any nonmajor program transactions, this report is not required. [SOP 92-9, par. 7.26]

³ A report on compliance with general requirements is required regardless of whether there are any major programs. [SOP 92-9, par. 7.25]

Yes No N/A

Report on Internal Control Structure Used in Administering Federal Awards

- | | | | |
|---|---|---|---|
| 3. Does the report on the internal control structure used in administering federal awards conform to the standard report illustrated in Exhibit D-8 in Appendix D of SOP 92-9? | — | — | — |
| 4. Does the report on internal control structure include: | | | |
| a. A description of the scope of the auditor's work to test the internal control structure policies and procedures? | — | — | — |
| b. A description of the organization's significant control policies and procedures established to provide reasonable assurance that it is managing its federal awards in compliance with applicable laws and regulations? | — | — | — |
| [SOP 92-9, par. 7.22] | | | |
| 5. If the auditor determines that tests of controls are likely to be ineffective in preventing or detecting noncompliance, is that matter disclosed as a "reportable condition?" | — | — | — |
| [SOP 92-9, par. 7.23] | | | |
| 6. If the auditor has limited his or her consideration of the internal control structure for any reason, are the circumstances disclosed in the report on the internal control structure? | — | — | — |
| [SOP 92-9, par. 7.23] | | | |

Report on Compliance With Specific Requirements Related to Major Programs

- | | | | |
|---|---|---|---|
| 7. For audits of major programs, does the report on compliance with specific requirements conform to the standard report illustrated in SAS 68, par. 81 (AU 801.81) and in Exhibits D-9 through D-14 in Appendix D of SOP 92-9? | — | — | — |
| 8. If the auditor is disclaiming an opinion due to a scope limitation: | | | |
| a. Are the reasons indicated, in a separate paragraph, as to why the audit did not com- | | | |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
ply with GAAS, the Yellow Book, or Circular A-133?	—	—	—
b. Does the auditor state that the scope of the audit was not sufficient to warrant the expression of an opinion?	—	—	—
c. Does the auditor disclose any reservations he or she has regarding compliance with applicable laws and regulations? [SAS 68, pars. 82 and 84 (AU 801.82 and .84)]	—	—	—
9. If the auditing procedures disclosed instances of noncompliance on major programs:			
a. Did the resulting modification to the auditor's report on compliance consider factors that include:			
1. The number and types of instances of noncompliance;	—	—	—
2. Determinability of questioned costs; and	—	—	—
3. Materiality of questioned costs.	—	—	—
b. If, after considering those factors, the auditor concludes that the instances of noncompliance have a material effect on a federal program, was a qualified or adverse opinion issued?	—	—	—
<u>or</u>			
c. If after considering those factors, the auditor is unable to determine if the instance of noncompliance could have a material effect on the program, does the report state that noncompliance occurred but the effect on the programs presently cannot be determined?	—	—	—
1. Is the effect of such uncertainties considered, and if necessary, was the report on the basic financial statements modified? [SOP 92-9; par. 7.24]	—	—	—

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. If the auditor was unable to examine appropriate evidence to support the comply/noncomply decision, was the report appropriately modified? [SOP 92-9, par. 7.24]	___	___	___
Report on Compliance With General Requirements			
11. Does the report on compliance with general requirements conform to the standard report illustrated in SAS 68, par. 52 (AU 801.52) and in Exhibits D-15 through D-17 in Appendix D of SOP 92-9?	___	___	___
Report on Compliance Related to Nonmajor Programs			
12. For nonmajor programs, does the report on compliance conform to the standard report illustrated in SAS 68, par. 90 (AU 801.90) and in Exhibit D-18 in Appendix D of SOP 92-9?	___	___	___
General			
13. Does each auditor's report on compliance with laws and regulations include, for each federal award:			
a. An identification of total amounts questioned as a result of noncompliance?	___	___	___
b. Any corrective action recommended by the auditor? [SOP 92-9, pars. 7.30 and 7.32]	___	___	___
14. Were any immaterial findings included either (1) in a schedule of findings and costs, or (2) in a separate communication to management? [SOP 92-9, par. 7.30]	___	___	___
15. If the audit is biennial, are both years within the period covered? [SOP 92-9, par. 2.47]	___	___	___

Checklist for Accountant's Reports on Compiled or Reviewed Financial Statements of Not-for-Profit Organizations

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

SSARS No. 7, Omnibus Statement on Standards for Accounting and Review Services — 1992, issued in November 1992, amends SSARS 1 in several different areas. It is effective for periods ending after December 15, 1993 and for reports issued after that date. Earlier application is encouraged.

This checklist contains the requirements applicable before the effective date of SSARS 7. However, any matters that will be changed by SSARS 7 are noted in the footnotes to this section.

Explanation of References:

SSARS = Statement on Standards for Accounting and Review Services

AR = Reference to section number in AICPA Professional Standards (vol. 2) of SSARS cited

This checklist is divided into two parts. Part I should be used by accountants engaged to compile financial statements; Part II, beginning on page 80, should be used by accountants engaged to review financial statements.

CHECKLIST QUESTIONNAIRE

Yes No N/A

PART I - FOR COMPILATION ENGAGEMENTS

1. Is the compilation report appropriately worded to state that:

- a. A compilation has been performed in accordance with standards established by the American Institute of Certified Public Accountants?¹

¹ SSARS 7, effective for reports issued after December 15, 1993, changes the wording in the first paragraph of the compilation and review report by making reference to Statements on Standards on Accounting and Review Services.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. A compilation is limited to presenting in the form of financial statements information that is the representation of management? [See SSARS 3, par. 3 (AR 300.03) for different wording that may be used when the financial statements are included in a prescribed form and the form or related instructions call for departure from generally accepted accounting principles.]	—	—	—
c. The financial statements have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them? [SSARS 1, par. 14 (AR 100.14)]	—	—	—
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement? [SSARS 1, pars. 14 and 32 (AR 100.14 and .32)]	—	—	—
3. For compiled financial statements that contain departures ² from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting:			
a. If the departure is the omission in compiled financial statements of substantially all required disclosures, does the accountant's report clearly indicate such omission? [SSARS 1, pars. 19 and 21 (AR 100.19 and .21)]	—	—	—
b. If compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles include disclosures about only a few matters in the form of notes to such financial statements, are such disclosures labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles (or, where applicable, another comprehensive basis of accounting) Are Not Included"? [SSARS 1, par. 19 (AR 100.19)]	—	—	—

² Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS 3 [AR 300] compilation report on financial statements included in a prescribed form.

Yes No N/A

- c. If compiled financial statements that omit substantially all required disclosures are prepared on a basis of accounting other than generally accepted accounting principles, and if such financial statements do not include disclosure of the basis of accounting used, does the accountant's report disclose the basis of accounting?³
[SSARS 1, par. 20 (AR 100.20)]
- d. If compiled financial statements contain a departure from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting, did the accountant modify his report to disclose the departure in a separate paragraph?
[SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]
- (1) If the effects of the departure on the financial statements have been determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report?
[SSARS 1, par. 40 (AR 100.40)]
- (2) If the effects of the departure on the financial statements have not been determined, has the accountant stated this in his report?
[SSARS 1, par. 40 (AR 100.40)]
4. If the accountant is not independent with respect to the organization for which he or she has compiled financial statements, did the accountant state in the last paragraph of the report, "I am (we are) not independent with respect to XYZ organization"?
[SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]
5. Is the report properly dated?
[SSARS 1, par. 15 (AR 100.15)]

³ SAS 62, paragraphs 9 and 10 (AU Secs. 623.09-10) provides guidance on evaluating the adequacy of disclosure in financial statements prepared in conformity with another comprehensive basis of accounting. [SSARS 7]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Does each page of the financial statements compiled by the accountant include a reference such as "See Accountant's Compilation Report"? [SSARS 1, par. 16 (AR 100.16)]	—	—	—
7. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an organization's ability to continue as a going concern, or an inconsistency in the application of accounting principles, did the report include a separate paragraph that discloses such matters?	—	—	—
a. In evaluating the adequacy of disclosures of going-concern uncertainties, did the accountant look to the guidance in paragraphs 10 and 11 of SAS 59? [SSARS 1, par. 40, footnote 14 (AR 100.40) and SSARS 7, par. 7]	—	—	—
8. If the accountant has compiled both the basic financial statements and other data which is presented for supplementary analysis purposes, does the compilation report also include the other data, indicating the degree of responsibility taken? [SSARS 1, par. 43 (AR 100.43)]	—	—	—
9. If an audit engagement has been changed to a review or compilation, does the report omit reference to: a) the original engagement, b) any auditing procedures that may have been performed, c) any scope limitation that resulted in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]	—	—	—
10. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	—	—	—
11. If compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles are included among the comparative financial statements, do all the periods presented also omit such disclosures? [SSARS 2, par. 5 (AR 200.05)]	—	—	—

Yes No N/A

- a. If the prior period financial statements did not omit the required disclosures, and the accountant is requested to compile statements for the same period that do omit those disclosures, does the accountant's compilation report include an additional paragraph that indicates:
1. The nature of the previous service rendered (compilation, review or audit)?
2. Date of the previous report?
[SSARS 2, pars. 29-30 (AR 200 .29-.30)]
12. If the level of service performed by the continuing accountant on the current-period financial statements is the same or higher than that performed on the financial statements of the prior period presented, has the continuing accountant's report on the prior period been updated?
[SSARS 2, pars. 8-10 (AR 200.08-.10)]
13. If the level of service performed by the continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented:
- a. Does the report on the current period include a separate paragraph that describes the responsibility assumed for the prior period?
- or
- b. Is the report on the current period accompanied by or combined with a reissued report on the financial statements of the prior period presented?
[SSARS 2, pars. 8, and 11-12 (AR 200.08, and .11-.12)]
14. If the report requires a changed reference to a departure from generally accepted accounting principles regarding the prior period presented, does the explanatory paragraph in the report include:
- a. The date of the previous report?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Description of the circumstances or events underlying the change?	—	—	—
c. Indication, if applicable, that the prior-period financial statements have been changed? [SSARS 2, pars. 14-15 (AR 200.14-.15)]	—	—	—
15. If the current-period financial statements were compiled and the financial statements of the prior period presented were audited and the audit report has not been reissued, does the current-period report include a separate paragraph that contains the following:			
a. Statement that the prior-period financial statements were audited previously?	—	—	—
b. Date of the previous report?	—	—	—
c. Type of opinion expressed previously?	—	—	—
d. If the opinion was other than unqualified, the substantive reasons therefor?	—	—	—
e. That no auditing procedures were performed after the date of the previous report? [SSARS 2, par. 28 (AR 200.28)]	—	—	—

Predecessor's Compilation Report

16. If the predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, has the successor:			
a. Made appropriate reference in his or her report to the predecessor's report in accordance with paragraphs .17 to .19 of SSARS 2?	—	—	—
or			
b. Performed a compilation, review, or audit of the statements of the prior period and reported on them accordingly? [SSARS 2, pars. 16-19 (AR 200.16-.19)]	—	—	—

Yes No N/A

17. If the financial statements of the prior period presented have been changed, has the predecessor or successor reported on them as restated?
[SSARS 2, pars. 25-26 (AR 200.25-.26)]

____ ____ ____

PART II - FOR REVIEW ENGAGEMENTS

NOTE: An accountant is precluded from issuing a review report on the financial statements of an organization with respect to which he or she is not independent.

1. Is the review report appropriately worded to state that:

a. A review was performed in accordance with standards established by the American Institute of Certified Public Accountants?⁴

___ ___ ___

b. All information included in the financial statements is the representation of the management of the organization?

___ ___ ___

c. A review consists principally of inquiries of organization personnel and analytical procedures applied to financial data?

___ ___ ___

d. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole and, accordingly, no such opinion is expressed?

___ ___ ___

e. The accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles or, where applicable, with another comprehensive basis of accounting, other than those modifications, if any, indicated in the report?

___ ___ ___

[SSARS 1, par. 32 (AR 100.32)]

2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement?

___ ___ ___

[SSARS 1, pars. 14 and 32 (AR 100.14 and .32)]

⁴ See footnote 1 on page 64.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. For reviewed financial statements that contain departures from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting (including the omission of required disclosures), did the accountant modify the report to disclose the departure in a separate paragraph? [SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]	—	—	—
a. If the effects of the departure on the financial statements have been determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS 1, par. 40 (AR 100.40)]	—	—	—
b. If the effects of the departure on the financial statements have not been determined, has the accountant stated this in the report? [SSARS 1, par. 40 (AR 100.40)]	—	—	—
4. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an organization's ability to continue as a going concern, or an inconsistency in the application of accounting principles, did the report include a separate paragraph that discloses such matters?	—	—	—
a. In evaluating the adequacy of disclosure of going-concern uncertainties, did the accountant look to the guidance in paragraphs 10 and 11 of SAS 59? [SSARS 1, par. 40 (AR 100.40) and SSARS 7, par. 7]	—	—	—
5. Is the report dated? [SSARS 1, par. 15 (par. 100.15)]	—	—	—
6. Does each page of the financial statements reviewed by the accountant include a reference such as "See Accountant's Review Report"? [SSARS 1, par. 34 (AR 100.34)]	—	—	—
7. When accompanying information is presented with the financial statements, did the accountant clearly indicate his or her degree of responsibility with respect to such information as follows:			

a. If the basic financial statements were reviewed, was the degree of responsibility disclosed in the report or in a separate report on the other data that states:

- (1) The review has been made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles or, where applicable, another comprehensive basis of accounting?

____ _

and either:

- (2) The other data accompanying the financial statements are presented only for supplementary analysis purposes and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and the accountant did not become aware of any material modifications that should be made to such data,

____ _

or

- (3) The other data accompanying the financial statements are presented only for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review, and the accountant does not express an opinion or any other form of assurance on such data?

____ _

[SSARS 1, par. 43 (AR 100.43)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. Was a representation letter obtained from the client to confirm the oral representations made to the accountant? ⁵	—	—	—
a. If the client did not provide a representation letter, did the accountant consider the matters discussed in paragraphs 44-49 of SSARS 1 in deciding whether it is appropriate to issue a compilation report?			
9. If an audit engagement has been changed to a review, does the report omit reference to: a) the original engagement, b) any auditing procedures that may have been performed, c) any scope limitation that resulted in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]	—	—	—
10. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	—	—	—
11. If the level of service performed by the continuing accountant on the current-period financial statements is the same or higher than that performed on the financial statements of the prior period presented, has the continuing accountant's report on the prior period been updated? [SSARS 2, pars. 8-10 (AR 200.08-.10)]	—	—	—
12. If the level of service performed by the continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented:			
a. Does the report on the current period include a separate paragraph that describes the responsibility assumed for the prior period?	—	—	—

⁵ Under existing SSARS literature, obtaining a representation letter in a review engagement is optional. When SSARS 7 becomes effective (for fiscal years ending after December 15, 1993) or if adopted early, a representation letter will be required for a review engagement.

Yes No N/A

or

- b. Is the report on the current period accompanied by or combined with a reissued report on the financial statements of the prior period presented?
[SSARS 2, pars. 8 and 11-12 (AR 200.08, and .11-.12)]
13. If the report requires a changed reference to a departure from generally accepted accounting principles regarding the prior period presented, does the explanatory paragraph in the report include:
- a. The date of the previous report?
- b. Description of the circumstances or events underlying the change?
- c. Indication, if applicable, that the prior-period financial statements have been changed?
[SSARS 2, pars. 14-15 (AR 200.14-.15)]
14. If the financial statements of the prior period presented have been changed, has the predecessor or successor reported on them as restated.
[SSARS 2, pars. 25-26 (AR 200.25-.26)]
15. If the current-period financial statements were reviewed and the financial statements of the prior period presented were audited and the audit report has not been reissued, does the current-period report include a separate paragraph that contains the following:
- a. Statement that the prior-period financial statements were audited previously?
- b. Date of the previous report?
- c. Type of opinion expressed previously?
- d. If the opinion was other than unqualified, the substantive reasons therefor?
- e. That no auditing procedures were performed after the date of the previous report?
[SSARS 2, par. 28 (AR 200.28)]

Yes No N/A

Predecessor's Review Report

16. If the predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, has the successor:

a. Made appropriate reference in the report to the predecessor's report in accordance with paragraphs .17 to .19 of SSARS 2? _____

or

b. Performed a compilation, review, or audit of the statements of the prior period and reported on them accordingly? _____

[SSARS 2, pars. 16-19 (AR 200.16-.19)]

Illustrative Financial Statements

Illustrative Auditor's Report and Financial Statements

The following illustrative auditors' reports and financial statements (exhibits 1 through 6) demonstrate the practical applications of the reporting practices discussed in the AICPA Audit and Accounting Guide, *Audits of Certain Nonprofit Organizations* and the AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations* (the Guides). Specific types of not-for-profit organizations have been selected to illustrate a wide diversity of reporting practices; it is not intended that these illustrations represent either the only types of disclosure or the only statement formats that would be appropriate. Not-for-profit organizations are urged to develop financial statement formats that are appropriate for their individual circumstances while being consistent with the accounting and reporting practices discussed in the Guides.

Note: In October, 1992, the FASB issued an exposure draft of a proposed statement, *Financial Statements of Not-for-Profit Organizations*, that would establish standards for general-purpose external financial statements provided by a not-for-profit organization. It would require all not-for-profit organizations to provide a statement of financial position, a statement of activities, and a statement of cash flows as their basic financial statements. This proposed statement is expected to be finalized shortly, but would not be effective until fiscal years beginning after December 15, 1994.

Illustrative Auditor's Report—Not-for-Profit Organization

Independent Auditor's Report

[Addressee]

We have audited the accompanying balance sheet of Sample Nonprofit Organization as of December 31, 19X2, and the related statement(s) of activity [and cash flows] for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Nonprofit Organization as of December 31, 19X2, and the results of its operations [and cash flows] for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

EXHIBIT 1—INDEPENDENT SCHOOL

EXHIBIT 1A

Sample Independent School Balance Sheet

June 30, 19X1

	Operating Funds	Plant Funds	Endowment Funds	Total All Funds
Assets				
Cash	\$ 87,000	\$ 15,000	\$ 19,000	\$ 121,000
Accounts receivable, less allowance for doubtful receivables of \$3,000	34,000	—	—	34,000
Pledges receivable, less allowance for doubtful pledges of \$10,000	—	75,000	—	75,000
Inventories, at lower of cost (FIFO) or market	7,000	—	—	7,000
Investments (Note 2)	355,000	10,000	100,000	465,000
Land, buildings, equipment, and library books, at cost less accumulated depreciation of \$980,000 (Note 3)	—	2,282,000	—	2,282,000
Other assets	17,000	—	—	17,000
Total assets	<u>\$500,000</u>	<u>\$2,382,000</u>	<u>\$119,000</u>	<u>\$3,001,000</u>
Liabilities and Fund Balances				
Accounts payable and accrued expenses	\$ 13,000	—	—	\$ 13,000
Deferred amounts (Note 6)				
Unrestricted	86,000	—	—	86,000
Restricted	27,000	\$ 100,000	—	127,000
Long-term debt (Note 4)	—	131,000	—	131,000
Total liabilities	<u>126,000</u>	<u>231,000</u>	<u>—</u>	<u>357,000</u>
Fund balances				
Unrestricted				
Designated by the governing board for long-term investment	355,000	—	—	355,000
Undesignated	19,000	—	—	19,000
	<u>374,000</u>	<u>—</u>	<u>—</u>	<u>374,000</u>
Restricted—nonexpendable	—	—	\$119,000	119,000
Net investment in plant	—	2,151,000	—	2,151,000
Total fund balances	<u>374,000</u>	<u>2,151,000</u>	<u>119,000</u>	<u>2,644,000</u>
Total liabilities and fund balances	<u>\$500,000</u>	<u>\$2,382,000</u>	<u>\$119,000</u>	<u>\$3,001,000</u>

EXHIBIT 1B

**Sample Independent School
Statement of Support and Revenue, Expenses,
Capital Additions, and Changes in Fund Balances**

Year Ended June 30, 19X1

	<u>Operating Funds</u>			Plant	Endowment	Total
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Funds</u>	<u>Funds</u>	<u>All Funds</u>
Support and Revenue						
Tuition and fees	\$ 910,000	—	\$ 910,000	—	—	\$ 910,000
Contributions	104,000	\$80,500	184,500	—	—	184,500
Endowment and other investment income	23,000	1,500	24,500	—	—	24,500
Net loss on investment transactions	(8,000)	—	(8,000)	—	—	(8,000)
Auxiliary activities	25,000	—	25,000	—	—	25,000
Summer school and other programs	86,000	—	86,000	—	—	86,000
Other sources	26,000	—	26,000	—	—	26,000
Total support and revenue	<u>1,166,000</u>	<u>82,000</u>	<u>1,248,000</u>	<u>—</u>	<u>—</u>	<u>1,248,000</u>
Expenses						
Program services						
Instruction and student activities	798,000	43,000	841,000	\$ 69,000	—	910,000
Auxiliary activities	24,000	—	24,000	—	—	24,000
Summer school and other programs	91,000	—	91,000	7,000	—	98,000
Financial aid	—	37,000	37,000	3,000	—	40,000
Total program services	<u>913,000</u>	<u>80,000</u>	<u>993,000</u>	<u>79,000</u>	<u>—</u>	<u>1,072,000</u>
Supporting services						
General administration	147,000	2,000	149,000	13,000	—	162,000
Fund raising	12,000	—	12,000	1,000	—	13,000
Total supporting services	<u>159,000</u>	<u>2,000</u>	<u>161,000</u>	<u>14,000</u>	<u>—</u>	<u>175,000</u>
Total expenses	<u>1,072,000</u>	<u>82,000</u>	<u>1,154,000</u>	<u>93,000</u>	<u>—</u>	<u>1,247,000</u>
Excess (deficiency) of support and revenue over expenses before capital additions	<u>94,000</u>	<u>—</u>	<u>94,000</u>	<u>(93,000)</u>	<u>—</u>	<u>1,000</u>
Capital additions						
Contributions and bequests	—	—	—	80,000	\$ 30,000	110,000
Investment income	—	—	—	5,000	—	5,000
Net gain on investment transactions	—	—	—	1,000	2,000	3,000
Total capital additions	<u>—</u>	<u>—</u>	<u>—</u>	<u>86,000</u>	<u>32,000</u>	<u>118,000</u>
Excess (deficiency) of support and revenue over expenses after capital additions	94,000	—	94,000	(7,000)	32,000	119,000
Fund balances at beginning of year	387,000	—	387,000	2,047,000	91,000	2,525,000
Transfers						
Equipment acquisitions and principal debt service payments	(111,000)	—	(111,000)	111,000	—	—
Realized gains on endowment funds utilized	4,000	—	4,000	—	(4,000)	—
Fund balances at end of year	<u>\$ 374,000</u>	<u>—</u>	<u>\$ 374,000</u>	<u>\$2,151,000</u>	<u>\$119,000</u>	<u>\$2,644,000</u>

EXHIBIT 1C

**Sample Independent School
Statement of Cash Flows***

Year Ended June 30, 19X1

	<u>Operating Funds</u>	<u>Plant Funds</u>	<u>Endowment Funds</u>	<u>Total All Funds</u>
Cash flows from operating activities				
Tuition, fees and auxiliary activities	\$ 1,044,000	—	—	\$ 1,044,000
Endowment and investment income	24,500	—	—	24,500
Contributions	187,500	—	—	187,500
Cash paid to suppliers and employees	(1,145,000)	—	—	(1,145,000)
Interest paid	(11,000)	—	—	(11,000)
Net cash flow from operating activities	<u>100,000</u>	<u>—</u>	<u>—</u>	<u>100,000</u>
Capital cash flows				
Contributions	—	\$ 95,000	\$ 30,000	125,000
Investment income	—	5,000	—	5,000
Net capital cash flows	<u>—</u>	<u>100,000</u>	<u>30,000</u>	<u>130,000</u>
Cash flows from financing activities				
Repayments of long-term debt	—	(52,000)	—	(52,000)
Net cash flow from financing activities	<u>—</u>	<u>(52,000)</u>	<u>—</u>	<u>(52,000)</u>
Cash flows from investing activities				
Land, buildings, equipment and library books				
Purchases	—	(145,000)	—	(145,000)
Proceeds from sales	—	—	—	—
Investments				
Purchases	(210,000)	(6,000)	(136,000)	(352,000)
Proceeds	160,000	2,000	47,000	209,000
Net cash flow from investing activities	<u>(50,000)</u>	<u>(149,000)</u>	<u>(89,000)</u>	<u>(288,000)</u>
Increase (decrease) in cash	50,000	(101,000)	(59,000)	(110,000)
Transfers				
Equipment acquisitions and principal debt service payments	(111,000)	111,000	—	—
Realized gains on endowment funds utilized	4,000	—	(4,000)	—
Net increase (decrease) in cash	<u>(57,000)</u>	<u>10,000</u>	<u>(63,000)</u>	<u>—</u>
Cash				
Beginning of year	144,000	5,000	82,000	231,000
End of year	<u>\$ 87,000</u>	<u>\$ 15,000</u>	<u>\$ 19,000</u>	<u>\$ 121,000</u>

*See footnote on page 1.

EXHIBIT 1D

Sample Independent School Notes to Financial Statements

Year Ended June 30, 19X1

Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Independent School have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the school, the accounts of the school are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the school are reported in three self-balancing fund groups as follows:

- Operating funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of school operations.
- Plant funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

Expendable Restricted Resources

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the school has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

Plant Assets and Depreciation

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Other Matters

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the expendable operating fund or, if restricted, as deferred amounts until the terms of the restriction have been met.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

Note 2—Investments

Investments are presented in the financial statements in the aggregate at the lower of cost (amortized, in the case of bonds) or fair market value.

	<u>Cost</u>	<u>Market</u>
Operating funds	\$355,000	\$365,000
Plant funds	10,000	11,000
Endowment funds	100,000	109,000
	<u>\$465,000</u>	<u>\$485,000</u>

Investments are composed of the following:

	<u>Cost</u>	<u>Market</u>
Corporate stocks and bonds	\$318,000	\$320,000
U.S. government obligations	141,000	159,000
Municipal bonds	6,000	6,000
	<u>\$465,000</u>	<u>\$485,000</u>

The following tabulation summarizes the relationship between carrying values and market values of investment assets.

	<u>Carrying Value</u>	<u>Market Value</u>	<u>Excess of Market Over Cost</u>
Balance at end of year	<u>\$465,000</u>	<u>\$485,000</u>	\$20,000
Balance at beginning of year	<u>\$327,000</u>	<u>\$335,000</u>	8,000
Increase in unrealized appreciation			12,000
Realized net loss for year			(5,000)
Total net gain for year			<u>\$ 7,000</u>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended June 30, 19X1.

Note 3—Inventories

Inventories at June 30, 19X1 consist of:

Paper and supply stock	\$2,000
Textbooks	5,000
	<u>\$7,000</u>

Note 4—Plant Assets and Depreciation

A summary of plant assets follows:

Land	\$ 255,000
Buildings	2,552,000
Equipment	340,000
Library books	115,000
	<u>3,262,000</u>
Less accumulated depreciation	<u>980,000</u>
	<u>\$2,282,000</u>

Note 5—Long-Term Debt

A summary of long-term debt follows:

7½% unsecured notes payable to bank due in quarterly installments of \$2,500	\$ 29,000
8½% mortgage payable in semiannual installments of \$3,500 through 19X7	102,000
	<u>\$131,000</u>

Long-term debt maturing in the next five years consists of:

19X2	\$17,000
19X3	17,000
19X4	16,000
19X5	7,000
19X6	7,000
Total	<u>\$64,000</u>

Note 6—Pension Plans

Effective July 1, 19X0, the school adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended June 30, 19X1, was a reduction of \$XX,XXX.

A summary of the components of income follows:

Service cost—benefits earned during the year	\$ XX,XXX
Interest cost on projected benefit obligation	XX,XXX
Actual return on plan assets	(XX,XXX)
Net asset gain (loss) deferred for later recognition	(XX,XXX)
Amortization of unrecognized net asset	<u>(XX,XXX)</u>
Net periodic pension income	<u>\$ (XX,XXX)</u>

Funded status of the plan:

Actuarial present value of benefit obligation

Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X1	\$ (XX,XXX)
Projected benefit obligation for service rendered to date	(XX,XXX)

Assets available for benefits

Plan assets at fair value, primarily listed stocks and U.S. government securities	<u>XXX,XXX</u>
Plan assets in excess of benefit obligation	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	XXX
Unrecognized net assets at July 1, 19X0 being recognized over XX years	<u>(XX,XXX)</u>
Prepaid pension cost included in other assets	<u>\$ XX,XXX</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X1, \$X,XXX of the vested benefit portion of the projected benefit obligation was settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the school recognized gains of \$X,XXX in 19X1.

Note 7—Postretirement Health Care and Life Insurance Benefits

Sample Independent School offers postretirement health care and life insurance benefits to substantially all of its retired regular full-time employees. Sample Independent School shares the cost of providing these benefits with all affected retirees. Sample Independent School's cost of providing such benefits is recognized by expensing the insurance programs' premiums as paid. The aggregate amount so expensed totaled \$XX,XXX for the year ended June 30, 19X1. Sample Independent School has made no provision for recognizing the cost or postretirement benefits which may eventually be paid to employees who have not yet retired.

Note 8—Changes in Deferred Restricted Amounts

	Operating Funds	Plant Funds
Balances at beginning of year	\$ 24,000	\$ 25,000
Additions		
Contributions and bequests	79,000	158,000
Investment income	6,000	1,000
Net gain on investment transactions	—	2,000
	<u>109,000</u>	<u>186,000</u>
Deductions—funds expended during the year	<u>82,000</u>	<u>86,000</u>
Balances at end of year	<u>\$ 27,000</u>	<u>\$100,000</u>

Note 9—Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support and revenue, expenses, capital additions, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 10—Commitments

The school has entered into various agreements aggregating approximately \$80,000 for the purchase of equipment to be received subsequent to June 30, 19X1.

EXHIBIT 2—UNION

EXHIBIT 2A

Sample Union Balance Sheet

December 31, 19X1
(With Comparative Totals for 19X0)

	General Fund (Undesignated)	Strike Insurance Fund (Designated)	December 31, 19X1 Total	December 31, 19X0 Total
Assets				
Current assets				
Cash (including savings accounts of \$2,100,000 and \$1,050,000) (Note 3)	\$ 650,800	\$ 1,710,000	\$ 2,360,800	\$ 1,238,100
Investments at market	491,800	9,054,200	9,546,000	9,640,400
Per capita dues receivable	51,800	133,200	185,000	189,500
Accrued interest receivable	1,800	210,700	212,500	214,600
Loans to affiliated organizations (Note 4)	21,400	—	21,400	27,300
Accounts receivable (less allowance for doubtful accounts of \$2,300 and \$2,500)	67,900	—	67,900	68,900
Prepaid expenses	74,900	—	74,900	71,500
Total current assets	<u>1,360,400</u>	<u>11,108,100</u>	<u>12,468,500</u>	<u>11,450,300</u>
Property, furniture, and equipment at cost (Note 1)				
Land	678,400	—	678,400	678,400
Buildings (net of accumulated depreciation of \$743,500 and \$675,600)	1,973,400	—	1,973,400	1,515,500
Furniture and equipment (net of accumulated depreciation of \$314,800 and \$278,200)	50,800	—	50,800	87,400
Total property, furniture, and equipment	<u>2,702,600</u>	<u>—</u>	<u>2,702,600</u>	<u>2,281,300</u>
Total assets	<u><u>\$4,063,000</u></u>	<u><u>\$11,108,100</u></u>	<u><u>\$15,171,100</u></u>	<u><u>\$13,731,600</u></u>
Liabilities and Fund Balances				
Current liabilities				
Accounts payable	\$ 337,600	—	\$ 337,600	\$ 423,100
Notes payable	13,100	—	13,100	19,600
Affiliation dues payable	48,800	—	48,800	49,600
Accrued salaries	31,500	—	31,500	33,000
Payroll taxes and employee deductions payable	89,300	—	89,300	90,400
Total current liabilities	<u>520,300</u>	<u>—</u>	<u>520,300</u>	<u>615,700</u>
Fund balances	<u>3,542,700</u>	<u>\$11,108,100</u>	<u>14,650,800</u>	<u>13,115,900</u>
Total liabilities and fund balances	<u><u>\$4,063,000</u></u>	<u><u>\$11,108,100</u></u>	<u><u>\$15,171,100</u></u>	<u><u>\$13,731,600</u></u>

EXHIBIT 2B

Sample Union
Statement of Revenue, Expense, and Changes in Fund Balances

Year Ended December 31, 19X1
(With Comparative Totals for 19X0)

	General Fund (Undesignated)	Strike Insurance Fund (Designated)	December 31, 19X1 Total	December 31, 19X0 Total
Revenue				
Per capita dues (Note 2)	\$9,385,500	\$ 3,532,300	\$12,917,800	\$13,219,800
Initiation fees	24,100	—	24,100	22,800
Sales of organizational supplies	26,700	—	26,700	17,900
Rental income	216,300	—	216,300	216,100
Administrative fees—apprentice training	11,800	—	11,800	12,100
Interest income	28,100	609,000	637,100	644,100
Total revenue	<u>9,692,500</u>	<u>4,141,300</u>	<u>13,833,800</u>	<u>14,132,800</u>
Expense (Note 6)				
Program services				
Strike assistance to local unions	877,900	2,630,500	3,508,400	3,345,600
Constitutional convention	154,600	—	154,600	132,800
Field office services				
Organization	2,054,000	—	2,054,000	2,106,500
Negotiation	2,156,700	—	2,156,700	2,212,000
Grievance	924,300	—	924,300	947,900
Total program services	6,167,500	2,630,500	8,798,000	8,744,800
Administrative and general	3,537,700	57,600	3,595,300	1,425,200
Net (gains) losses on investments	(94,400)	—	(94,400)	2,062,800
Total expense	<u>9,610,800</u>	<u>2,688,100</u>	<u>12,298,900</u>	<u>12,232,800</u>
Excess of revenue over expense	81,700	1,453,200	1,534,900	1,900,000
Fund balances, beginning of year	<u>3,461,000</u>	<u>9,654,900</u>	<u>13,115,900</u>	<u>11,215,900</u>
Fund balances, end of year	<u>\$3,542,700</u>	<u>\$11,108,100</u>	<u>\$14,650,800</u>	<u>\$13,115,900</u>

EXHIBIT 2C

Sample Union Statement of Cash Flows¹

Year Ended December 31, 19X1

	General Fund (Undesignated)	Strike Insurance Fund (Designated)	Total All Funds	December 31, 19X0 Total
Cash flows from operating activities				
Per capita dues, fees, and sales	\$ 9,450,800	\$ 3,535,500	\$ 12,986,300	\$ 13,276,200
Rental income	216,300	—	216,300	216,100
Interest income	28,100	610,700	638,800	644,100
Cash paid to suppliers and employees	(9,597,000)	(57,600)	(9,654,600)	(8,821,200)
Strike assistance to local unions	—	(2,630,500)	(2,630,500)	(3,345,600)
Interest paid	(1,600)	—	(1,600)	(2,200)
Net cash flow from operating activities	<u>96,600</u>	<u>1,458,100</u>	<u>1,554,700</u>	<u>1,967,400</u>
Cash flows from financing activities				
Repayment of debt	(6,500)	—	(6,500)	(6,500)
Net cash flow from financing activities	<u>(6,500)</u>	<u>—</u>	<u>(6,500)</u>	<u>(6,500)</u>
Cash flows from investing activities				
Purchase of property, furniture and equipment	(525,800)	—	(525,800)	(352,000)
Principal collected on loans to affiliated organizations	5,900	—	5,900	2,600
Investments				
Purchases	(103,000)	(110,000)	(213,000)	(1,925,200)
Proceeds from sale	118,900	188,500	307,400	500,000
Net cash flow from investing activities	<u>(504,000)</u>	<u>78,500</u>	<u>(425,500)</u>	<u>(1,774,600)</u>
Increase (decrease) in cash	<u>(413,900)</u>	<u>1,536,600</u>	<u>1,122,700</u>	<u>186,300</u>
Cash				
Beginning of year	1,064,700	173,400	1,238,100	1,051,800
End of year	<u>\$ 650,800</u>	<u>\$ 1,710,000</u>	<u>\$ 2,360,800</u>	<u>\$ 1,238,100</u>

¹See footnote on page 1.

EXHIBIT 2D

Sample Union Notes to Financial Statements

December 31, 19X1, and 19X0

Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Union have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Union, the accounts of the Union are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the Union are reported in two self-balancing fund groups as follows:

- General funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of operations.
- Strike funds represent resources designated for benefits to the membership in the event of a strike.

Plant Assets and Depreciation

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Other Matters

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets.

Note 2—Strike Insurance Fund

In accordance with the provisions of the Union Constitution, 27 percent of the per capita dues paid to the Union are designated for the Strike Insurance Fund. The fund may be distributed for strike relief at the discretion of the Union Executive Board. No charges may be made against the fund for administrative expenses.

Note 3—Pledged Assets and Contingent Liabilities

The Union is contingently liable as guarantor of a loan of \$15,000 to an affiliated local. In connection with the guarantee, a savings account, having a balance of \$20,000, is pledged as collateral for the loan.

Note 4—Loans to Affiliated Organizations

The loans to affiliated organizations represent short-term loans to local unions at current interest rates. All such loans are expected to be collected within one year.

Note 5—Investments

Investments are presented in the financial statements in the aggregate at fair market value.

	December 31,	
	19X1	19X0
General fund	\$ 491,800	\$ 496,000
Strike fund	9,054,200	9,144,400
	<u>\$9,546,000</u>	<u>\$9,640,400</u>

Investments are composed of the following:

U.S. government obligations	\$6,683,000	\$6,748,000
Municipal bonds	2,863,000	2,892,000
	<u>\$9,546,000</u>	<u>\$9,640,000</u>

The average annual yield exclusive of net gains (losses) was 7 percent and the annual total return based on market value was 9 percent for the year ended December 31, 19X1.

Note 6—Pension Plan

Effective January 1, 19X0, Sample Union adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended June 30, 19X1, was a reduction of \$XX,XXX.

A summary of the components of income follows:

	December 31,	
	19X1	19X0
Service cost—benefits earned during the year	\$ XX,XXX	\$ XX,XXX
Interest cost on projected benefit obligation	XX,XXX	XX,XXX
Actual return on plan assets	(XX,XXX)	(XX,XXX)
Net asset gain (loss) deferred for later recognition	(XX,XXX)	(XX,XXX)
Amortization of unrecognized net asset	(XX,XXX)	(XX,XXX)
Net periodic pension income	<u>\$ (XX,XXX)</u>	<u>\$ (XX,XXX)</u>

Funded status of the plan:

Actuarial present value of benefit obligation

Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X1 and \$XX,XXX in 19X0	\$ (XX,XXX)	\$ (XX,XXX)
Projected benefit obligation for service rendered to date	(XX,XXX)	(XX,XXX)

Assets available for benefits

Plan assets at fair value, primarily listed stocks and U.S. government securities	XXX,XXX	XXX,XXX
Plan assets in excess of benefit obligation	XX,XXX	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	XXX	XXX
Unrecognized net assets at July 1, 19X0, being recognized over XX years	(XX,XXX)	(XX,XXX)
Prepaid pension cost included in other assets	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X1 and 19X0, \$X,XXX and \$XX,XXX, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the Union recognized gains of \$X,XXX and \$X,XXX in 19X1 and 19X0, respectively.

Note 7—Postretirement Health Care and Life Insurance Benefits

Sample Union offers postretirement health care and life insurance benefits to substantially all of its retired regular full-time employees. Sample Union shares the cost of providing these benefits with all affected retirees. Sample Union's cost of providing such benefits is recognized by expensing the insurance programs' premiums as paid. The aggregate amount so expensed totaled \$XX,XXX and \$XX,XXX for the years ended December 31, 19X1 and 19X0, respectively. Sample Union has made no provision for recognizing the cost of postretirement benefits which may eventually be paid to employees who have not yet retired.

Note 8—Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of revenue, expenses, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

EXHIBIT 3—MUSEUM

EXHIBIT 3A

Sample Museum Balance Sheet

June 30, 19X1
(With Comparative Totals for 19X0)

	Operating Funds	Plant Funds	Endowment Funds	Total	June 30, 19X0 Total
Assets					
Current assets					
Cash	\$ 19,800	—	—	\$ 19,800	\$ 23,700
Receivables, less allowance of \$7,700	145,500	—	—	145,500	125,800
Investments (Note 2)	210,000	—	—	210,000	—
Inventories, at lower of cost (FIFO) or market	121,100	—	—	121,100	120,600
Prepayments	26,600	—	—	26,600	12,700
Total current assets	523,000	—	—	523,000	282,800
Fixed assets, net of depreciation (Note 3)	—	\$1,964,000	—	1,964,000	1,866,800
Art collection (Note 11)					
Cash held for investment	—	—	\$ 6,000	6,000	3,800
Investments (Note 2)	4,044,500	—	7,688,400	11,732,900	11,709,300
Total	<u>\$4,567,500</u>	<u>\$1,964,000</u>	<u>\$7,694,400</u>	<u>\$14,225,900</u>	<u>\$13,862,700</u>
Liabilities and Fund Balances					
Current liabilities					
Accounts payable and accrued expenses	\$ 256,900	—	—	\$ 256,900	\$ 252,900
Deferred revenue and restricted gifts, current portion (Note 5)	242,100	—	—	242,100	208,100
Total current liabilities	499,000	—	—	499,000	461,000
Deferred revenue and restricted gifts, noncurrent portion (Note 5)	409,900	—	—	409,900	167,300
Fund balances					
Endowment	—	—	\$7,694,400	7,694,400	7,621,800
Land, buildings, and equipment	—	\$1,964,000	—	1,964,000	1,866,800
Unrestricted					
Designated for investment	3,490,000	—	—	3,490,000	3,490,000
Designated for plant expansion	150,000	—	—	150,000	—
Unappropriated	18,600	—	—	18,600	255,800
Total fund balances	3,658,600	1,964,000	7,694,400	13,317,000	13,234,400
Total	<u>\$4,567,500</u>	<u>\$1,964,000</u>	<u>\$7,694,400</u>	<u>\$14,225,900</u>	<u>\$13,862,700</u>

EXHIBIT 3B

**Sample Museum
Statement of Activity**

**Year Ended June 30, 19X1
(With Comparative Totals for 19X0)**

	Operating Funds	Plant Funds	Endowment Funds	Total	Year Ended June 30, 19X0 Total
Support and revenue					
Admissions	\$ 131,100	—	—	\$ 131,100	\$ 123,400
Government appropriations	110,700	—	—	110,700	104,000
Gifts and grants (Notes 5 and 8)	130,000	—	—	130,000	124,700
Memberships	48,400	—	—	48,400	39,900
Investment income	828,800	—	—	828,800	841,700
Net realized investment gains (losses)	6,300	—	—	6,300	(2,600)
Revenue, auxiliary activities	483,100	—	—	483,100	417,200
Total	1,738,400	—	—	1,738,400	1,648,300
Expenses					
Program					
Curatorial and conservation	578,600	\$ 27,400	—	606,000	602,000
Exhibits	108,600	—	—	108,600	109,100
Education	133,400	4,800	—	138,200	131,600
Fellowships	68,200	—	—	68,200	52,800
Public information	66,400	2,700	—	69,100	67,700
Accession of art for collection, net of deaccessions (Note 11)	200,000	—	—	200,000	170,000
Supporting services					
Management and general	67,400	10,800	—	78,200	77,300
Fund raising	10,300	—	—	10,300	9,600
Cost of sales and expense of auxiliary activities	441,100	8,700	—	449,800	384,600
Total	1,674,000	54,400	—	1,728,400	1,604,700
Excess (deficiency) of support and revenue over expenses before capital additions	64,400	(54,400)	—	10,000	43,600
Capital additions					
Gifts and grants (Note 8)	—	—	\$ 76,400	76,400	18,200
Net investment income	—	—	4,700	4,700	1,800
Net realized investment gains (losses)	—	—	(8,500)	(8,500)	(2,000)
Total	—	—	72,600	72,600	18,000
Excess (deficiency) of support and revenue over expenses after capital additions	64,400	(54,400)	72,600	82,600	61,600
Fund balances, beginning of period	3,745,800	1,866,800	7,621,800	13,234,400	13,172,800
Add (deduct) transfers (Note 9)	(151,600)	151,600	—	—	—
Fund balances, end of period	\$3,658,600	\$1,964,000	\$7,694,400	\$13,317,000	\$13,234,400

EXHIBIT 3C

Sample Museum Statement of Cash Flows¹

Year Ended June 30, 19X1

	Operating Funds	Plant Funds	Endowment Funds	Total All Funds
Cash flows from operating activities				
Admissions, memberships and other	\$1,160,200	—	—	\$1,160,200
Investment income	828,800	—	—	828,800
Cash paid to suppliers and employees	(1,684,400)	—	—	(1,684,400)
Net cash flow from operating activities	<u>304,600</u>	<u>—</u>	<u>—</u>	<u>304,600</u>
Capital cash flows				
Gifts and grants	—	—	\$ 76,400	76,400
Investment income	—	—	4,700	4,700
Net capital cash flows	<u>—</u>	<u>—</u>	<u>81,100</u>	<u>81,100</u>
Cash flows from investing activities				
Fixed assets				
Purchases	—	(151,600)	—	(151,600)
Proceeds from sales	—	—	—	—
Investments				
Purchases	(792,000)	—	(396,000)	(1,188,000)
Proceeds	635,100	—	317,100	952,000
Net cash flow from investing activities	<u>(156,900)</u>	<u>(151,600)</u>	<u>(78,900)</u>	<u>(387,400)</u>
Increase (decrease) in cash	147,700	(151,600)	2,200	(1,700)
Transfers				
Equipment acquisitions and principal debt service payments	(151,600)	151,600	—	—
Net increase(decrease) in cash	(3,900)	—	2,200	(1,700)
Cash				
Beginning of year	23,700	—	3,800	27,500
End of year	<u>\$ 19,800</u>	<u>\$ —</u>	<u>\$ 6,000</u>	<u>\$ 25,800</u>

¹See footnote on page 1.

EXHIBIT 3D

Sample Museum Notes to Financial Statements

June 30, 19X1

Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Museum have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the museum, the accounts of the museum are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the museum are reported in three self-balancing fund groups as follows:

- Operating funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of school operations.
- Plant funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

Expendable Restricted Resources

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the museum has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

Plant Assets and Depreciation

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Other Matters

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the expendable operating fund or, if restricted, as deferred amounts until the terms of the restriction have been met.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

Note 2—Investments

Investments are presented in the financial statements in the aggregate at the lower of cost (amortized, in the case of bonds) or fair market value.

	June 30,			
	19X1		19X0	
	Cost	Market	Cost	Market
Operating funds	\$4,254,500	\$4,679,950	\$4,171,280	\$4,590,730
Endowment funds	7,688,400	8,452,400	7,538,020	8,296,020
	<u>\$11,942,900</u>	<u>\$13,132,350</u>	<u>\$11,709,300</u>	<u>\$12,886,750</u>

Investments are composed of the following:

Corporate stocks and bonds	\$7,165,740	\$7,879,410	\$7,025,580	\$7,732,050
U.S. government obligations	3,582,870	3,939,705	3,512,790	3,866,025
Municipal bonds	1,194,290	1,313,235	1,170,930	1,288,675
	<u>\$11,942,900</u>	<u>\$13,132,350</u>	<u>\$11,709,300</u>	<u>\$12,886,750</u>

The following tabulation summarizes the relationship between carrying values and market values of investment assets.

	Carrying Value	Market Value	Excess of Market Over Cost
Balance at end of year	<u>\$11,942,900</u>	<u>\$13,132,350</u>	\$1,189,450
Balance at beginning of year	<u>\$11,709,300</u>	<u>\$12,886,750</u>	1,177,450
Increase in unrealized appreciation			12,000
Realized net loss for year			(2,200)
Total net gain for year			<u>\$ 9,800</u>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended June 30, 19X1.

Note 3—Plant Assets and Depreciation

A summary of plant assets follows:

	June 30,	
	19X1	19X0
Land	\$ 981,900	\$ 981,900
Buildings	1,636,500	1,636,500
Equipment	654,600	503,000
	<u>3,273,000</u>	<u>3,121,400</u>
Less accumulated depreciation	<u>1,309,000</u>	<u>1,254,600</u>
	<u>\$1,964,000</u>	<u>\$1,866,800</u>

Note 4—Pension Plan

Effective July 1, 19X0, Sample Museum adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions.

Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended June 30, 19X1, was a reduction of \$XX,XXX.

A summary of the components of income follows:

	June 30,	
	19X1	19X0
Service cost—benefits earned during the year	\$ XX,XXX	\$ XX,XXX
Interest cost on projected benefit obligation	XX,XXX	XX,XXX
Actual return on plan assets	(XX,XXX)	(XX,XXX)
Net asset gain (loss) deferred for later recognition	(XX,XXX)	(XX,XXX)
Amortization of unrecognized net assets	(XX,XXX)	(XX,XXX)
Net periodic pension income	<u>\$ (XX,XXX)</u>	<u>\$ (XX,XXX)</u>
Funded status of the plan:		
Actuarial present value of benefit obligation		
Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X1 and \$XX,XXX in 19X0	<u>\$ (XX,XXX)</u>	<u>\$ (XX,XXX)</u>
Projected benefit obligation for service rendered to date	(XX,XXX)	(XX,XXX)
Assets available for benefits		
Plan assets at fair value, primarily listed stocks and U.S. government securities	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Plan assets in excess of benefit obligation	XX,XXX	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	XXX	XXX
Unrecognized net assets at July 1, 19X0, being recognized over XX years	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
Prepaid pension cost included in other assets	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X1 and 19X0, \$X,XXX and \$XX,XXX, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, Sample Museum recognized gains of \$X,XXX and \$X,XXX in 19X1 and 19X0, respectively.

Note 5—Changes in Deferred Restricted Amounts

	Operating Funds	
	Current	Noncurrent
Balances at beginning of year	\$ 208,100	\$167,300
Additions		
Contributions and bequests	872,900	242,600
Investment income	828,800	
Net gain on investment transactions	6,300	
	1,916,100	409,900
Deductions—funds expended during the year	1,674,000	—
Balances at end of year	\$ 242,100	\$409,900

Note 6—Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support and revenue, expenses, capital additions, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 7—Commitments

The museum has entered into various agreements aggregating approximately \$80,000 for the purchase of equipment to be received subsequent to June 30, 19X1.

Note 8—Gifts Received

During the year ended June 30, 19X1, Sample Museum received several endowments totaling \$76,400. The donative instruments stipulate that the principal is to be maintained inviolate and in perpetuity and only the income from the investments of the fund may be expended.

Note 9—Interfund Transfers

During the year ended June 30, 19X1, the trustees authorized a transfer from the Operating Fund to the Plant Fund in the amount of \$151,600 representing fixed assets purchased with resources of the Operating Fund.

Note 10—Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Museum's programs, principally in membership development and educational programs. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Note 11—Art Collection

In conformity with the practice followed by many museums, art objects purchased and donated are not included in the balance sheet.

The value of the objects acquired by gift for which the Museum can make a reasonable estimate is reported as gifts in the Statement of Activity (\$28,000 in the year ended June 30, 19X1).

The cost of all objects purchased together with the value of objects acquired by gift as indicated in the preceding paragraph, less the proceeds from deaccessions of objects, is reported as a separate program expense. During the year ended June 30, 19X1, purchase of art objects amounted to \$185,000 and the proceeds from deaccessions was \$13,000.

Gifts of cash or other property restricted by donors for the purchase of items for the collection are classified as deferred revenue until acquisitions are made in accordance with the terms of the gifts.

EXHIBIT 4—PRIVATE FOUNDATION

EXHIBIT 4A

Sample Private Foundation Balance Sheet

December 31, 19X1, and 19X0

	19X1	19X0
Assets		
Cash	\$ 75,000	\$ 50,000
Accrued interest and dividends receivable	175,000	225,000
Securities, at market (cost, 19X1—\$17,800,000; 19X0—\$17,400,000) (Note 2)		
U.S. government obligations	2,000,000	1,750,000
Corporate and other obligations	5,000,000	7,000,000
Stocks	12,000,000	10,000,000
	19,000,000	18,750,000
Total assets	<u>\$19,250,000</u>	<u>\$19,025,000</u>
Liabilities and Fund Balance		
Federal excise taxes payable (Note 3)	\$ 41,000	\$ 39,000
Accrued expenses payable	9,000	11,000
Deferred taxes	10,000	5,000
Unconditional grants payable	40,000	75,000
Total liabilities	100,000	130,000
Commitments (Note 4)		
Fund balance	19,150,000	18,895,000
Total liabilities and fund balance	<u>\$19,250,000</u>	<u>\$19,025,000</u>

EXHIBIT 4B**Sample Private Foundation
Statement of Revenue, Expense, and Changes in Fund Balances****Years Ended December 31, 19X1, and 19X0**

	<u>19X1</u>	<u>19X0</u>
Revenue and support		
Dividends	\$ 525,000	\$ 500,000
Interest	500,000	585,000
Unrestricted donations	100,000	—
Total revenue and support	<u>1,125,000</u>	<u>1,085,000</u>
Expense		
Program services		
Program grants		
Health	530,000	525,000
Education	390,000	375,000
Program management	82,500	80,000
Management and general expenses	1,002,500	980,000
Provision for federal excise taxes	40,000	38,000
	<u>112,500</u>	<u>108,000</u>
Total expense	<u>1,115,000</u>	<u>1,088,000</u>
Excess (deficiency) of revenue and support over expense before gains (losses) on securities	10,000	(3,000)
Net gains (losses) on securities	<u>245,000</u>	<u>(172,000)</u>
Excess (deficiency) for the year	255,000	(175,000)
Fund balance, beginning of year	<u>18,895,000</u>	<u>19,070,000</u>
Fund balance, end of year	<u>\$19,150,000</u>	<u>\$18,895,000</u>

EXHIBIT 4C**Sample Private Foundation
Statement of Cash Flows*****Years Ended December 31, 19X1, and 19X0**

	<u>19X1</u>	<u>19X0</u>
Cash flows from operating activities		
Unrestricted donations	\$ 100,000	\$ —
Investment income	1,075,000	1,125,000
Grants paid	(955,000)	(920,000)
Cash paid to suppliers and employees	(152,000)	(169,000)
Taxes paid	<u>(38,000)</u>	<u>(39,000)</u>
Net cash flow from operating activities	<u>30,000</u>	<u>3,000</u>
Cash flows from investing activities		
Investments		
Purchases	(5,110,000)	(4,007,000)
Proceeds	<u>5,105,000</u>	<u>4,000,000</u>
Net cash flow from investing activities	<u>(5,000)</u>	<u>(7,000)</u>
Net increase (decrease) in cash	25,000	(10,000)
Cash		
Beginning of year	<u>50,000</u>	<u>60,000</u>
End of year	<u>\$ 75,000</u>	<u>\$ 50,000</u>

*See footnote on page 1.

EXHIBIT 4D

Sample Private Foundation Notes to Financial Statements

December 31, 19X1, and 19X0

Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Private Foundation have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the foundation, the accounts of the foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined.

Expendable Restricted Resources

Funds restricted by the donor, grantor, or other outside party for particular purposes are deemed to be earned and reported as revenues when the foundation has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

Office Furnishings

Costs of office furnishings and equipment are consistently charged to expense because the foundation does not deem such amounts to be sufficiently material to warrant capitalization and depreciation.

Note 2—Investments

Investments are presented in the financial statements at fair market value.

Investments are composed of the following:

	December 31,			
	19X1		19X0	
	Cost	Market	Cost	Market
Stocks	\$11,240,000	\$12,000,000	\$ 9,280,000	\$10,000,000
U.S. government obligations	1,870,000	2,000,000	1,620,000	1,750,000
Corporate and municipal bonds	4,690,000	5,000,000	6,500,000	7,000,000
	<u>\$17,800,000</u>	<u>\$19,000,000</u>	<u>\$17,400,000</u>	<u>\$18,750,000</u>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended June 30, 19X1.

Note 3—Federal Excise Taxes

In accordance with the applicable provisions of the Tax Reform Act of 1969, the foundation is subject to an excise tax on net investment income, including realized gains, as defined in the act. Accordingly, federal excise taxes have been accrued in amounts of \$41,000 and \$39,000 as of December 31, 19X1, and 19X0, respectively.

In addition, the Tax Reform Act requires that certain minimum distributions be made in accordance with a specified formula. At December 31, 19X1, the foundation has distributed approximately \$200,000 more than the required minimum.

Note 4—Commitments

Trustees of the foundation had approved, as of December 31, 19X1, and 19X0, grants amounting to \$750,000 and \$700,000, respectively. Such grants are subject to the satisfaction by the intended recipients of prior conditions before payment. The commitments outstanding at December 31, 19X1, are scheduled for payment as follows:

<u>Year</u>	<u>Amount</u>
19X2	\$600,000
19X3	100,000
19X4	50,000
	<u>\$750,000</u>

Note 5—Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of revenue, expenses, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

EXHIBIT 5—RELIGIOUS ORGANIZATION

EXHIBIT 5A

Sample Religious Organization Balance Sheet

December 31, 19X1

	Expendable Funds			Plant Fund	Nonexpendable Funds		Total All Funds
	Operating	Deposit and Loan	Total		Endowment	Annuity and Life Income	
Assets							
Cash	\$1,750,000	\$ 10,000	\$ 1,760,000	\$ 408,000	\$ 20,000	\$ 2,000	\$ 2,190,000
Accounts receivable, less allowance for doubtful receivables of \$12,000	520,000	—	520,000	—	—	—	520,000
Pledges receivable, less allowance for doubtful pledges of \$25,000	500,000	—	500,000	80,000	—	—	580,000
Investments (Note 2)	3,800,000	300,000	4,100,000	260,000	1,300,000	178,000	5,838,000
Loans receivable, less allowance for doubtful loans of \$350,000	—	2,600,000	2,600,000	—	—	—	2,600,000
Advances to plant funds	—	3,500,000	3,500,000	—	—	—	— *
Land, buildings, and equipment at cost, less accumulated depreciation of \$23,500,000 (Note 3)	—	—	—	44,800,000	—	—	44,800,000
Other assets	150,000	—	150,000	—	—	—	150,000
Total assets	<u>\$6,720,000</u>	<u>\$6,410,000</u>	<u>\$13,130,000</u>	<u>\$45,548,000</u>	<u>\$1,320,000</u>	<u>\$180,000</u>	<u>\$56,678,000</u>
Liabilities and Fund Balances							
Accounts payable and accrued expenses	\$ 600,000	—	\$ 600,000	\$ 20,000	—	\$120,000	\$ 740,000
Deferred amounts (Note 6)							
Unrestricted	160,000	—	160,000	—	—	—	160,000
Restricted	870,000	—	870,000	328,000	—	60,000	1,258,000
Advances from expendable funds	—	—	—	3,500,000	—	—	— *
Deposits payable	—	\$7,310,000	7,310,000	—	—	—	7,310,000
Long-term debt (Note 4)	—	—	—	2,800,000	—	—	2,800,000
Total liabilities	<u>1,630,000</u>	<u>7,310,000</u>	<u>8,940,000</u>	<u>6,648,000</u>	<u>—</u>	<u>180,000</u>	<u>12,268,000</u>
Fund balances (deficit)							
Unrestricted							
Designated for long-term investment	3,800,000	—	3,800,000	—	—	—	3,800,000
Undesignated	1,290,000	(900,000)	390,000	—	—	—	390,000
	<u>5,090,000</u>	<u>(900,000)</u>	<u>4,190,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,190,000</u>
Restricted	—	—	—	—	\$1,320,000	—	1,320,000
Net investment in plant	—	—	—	38,900,000	—	—	38,900,000
Total fund balances (deficit)	<u>5,090,000</u>	<u>(900,000)</u>	<u>4,190,000</u>	<u>38,900,000</u>	<u>1,320,000</u>	<u>—</u>	<u>44,410,000</u>
Total liabilities and fund balances	<u>\$6,720,000</u>	<u>\$6,410,000</u>	<u>\$13,130,000</u>	<u>\$45,548,000</u>	<u>\$1,320,000</u>	<u>\$180,000</u>	<u>\$56,678,000</u>

*Interfund borrowings eliminated in combination.

EXHIBIT 5B

**Sample Religious Organization
Statement of Support and Revenue, Expenses,
Capital Additions, and Changes in Fund Balances**

Year Ended December 31, 19X1

	Expendable Funds				Plant Fund	Nonexpendable	Total All Funds
	Operating		Deposit and Loan	Total		Endowment	
	Unrestricted	Restricted				Funds	
Support and revenue							
Contributions and bequests	\$ 6,800,000	\$180,000	—	\$ 6,980,000	—	—	\$ 6,980,000
Fees for services	4,000,000	—	—	4,000,000	—	—	4,000,000
Endowment and other investment income	200,000	40,000	—	240,000	—	—	240,000
Net gain on investment transactions	250,000	—	—	250,000	—	—	250,000
Contributed services	950,000	—	—	950,000	—	—	950,000
Auxiliary activities	205,000	—	\$535,000	740,000	—	—	740,000
Total support and revenue	12,405,000	220,000	535,000	13,160,000	—	—	13,160,000
Expenses							
Program services							
Pastoral	3,300,000	45,000	—	3,345,000	\$ 300,000	—	3,645,000
Education	4,000,000	80,000	—	4,080,000	460,000	—	4,540,000
Health care	2,800,000	25,000	—	2,825,000	250,000	—	3,075,000
Social services	900,000	50,000	—	950,000	85,000	—	1,035,000
Cemeteries	220,000	20,000	—	240,000	20,000	—	260,000
Religious personnel development	600,000	—	—	600,000	55,000	—	655,000
Auxiliary activities	160,000	—	685,000	845,000	5,000	—	850,000
Total program services	11,980,000	220,000	685,000	12,885,000	1,175,000	—	14,060,000
Supporting services							
General administration	180,000	—	—	180,000	15,000	—	195,000
Fund raising	120,000	—	—	120,000	10,000	—	130,000
Total supporting services	300,000	—	—	300,000	25,000	—	325,000
Total expenses	12,280,000	220,000	685,000	13,185,000	1,200,000	—	14,385,000
Excess (deficiency) of support and revenue over expenses before capital additions	125,000	—	(150,000)	(25,000)	(1,200,000)	—	(1,225,000)
Capital additions							
Contributions and bequests	—	—	—	—	310,000	\$ 200,000	510,000
Investment income	—	—	—	—	15,000	—	15,000
Net gain on investment transactions	—	—	—	—	—	80,000	80,000
Total capital additions	—	—	—	—	325,000	280,000	605,000
Excess (deficiency) of support and revenue over expenses after capital additions	125,000	—	(150,000)	(25,000)	(875,000)	280,000	(620,000)
Fund balances (deficit) at beginning of year	5,315,000	—	(750,000)	4,565,000	39,425,000	1,040,000	45,030,000
Transfers to plant funds for plant acquisitions and principal debt service payments financed from operating funds	(350,000)	—	—	(350,000)	350,000	—	—
Fund balances (deficit) at end of year	\$ 5,090,000	—	\$(900,000)	\$4,190,000	\$38,900,000	\$1,320,000	\$44,410,000

EXHIBIT 5C
Sample Religious Organization
Statement of Cash Flows*
Year Ended December 31, 19X1

	Expendable Funds				Nonexpendable Funds		
	Operating	Deposit and Loan	Total	Plant Fund	Endowment	Annuity and Life Income	Total All Funds
Cash flows from operating activities							
Contributions, bequests, and other	\$11,005,000	\$267,000	\$11,272,000	—	—	—	\$11,272,000
Endowment and investment income	200,000	—	200,000	—	—	—	200,000
Interest received	—	208,000	208,000	—	—	—	208,000
Cash paid to suppliers and employees	(10,838,000)	(256,000)	(11,094,000)	—	—	—	(11,094,000)
Interest paid	(312,000)	(439,000)	(751,000)	—	—	\$(12,000)	(763,000)
Net cash flow from operating activities	55,000	(220,000)	(165,000)	—	—	(12,000)	(177,000)
Capital cash flows							
Contributions, bequests, and other	—	—	—	\$298,000	\$200,000	—	498,000
Investment income	—	—	—	15,000	—	—	15,000
Net capital cash flows	—	—	—	313,000	200,000	—	513,000
Cash flows from financing activities							
Issuance of long-term debt	—	—	—	400,000	—	—	400,000
Repayments of long-term debt	—	—	—	(320,000)	—	—	(320,000)
Net cash flow from financing activities	—	—	—	80,000	—	—	80,000
Cash flows from investing activities							
Land, buildings, and equipment							
Purchases	—	—	—	(755,000)	—	—	(755,000)
Investments							
Purchases	(1,830,000)	(70,000)	(1,900,000)	—	(784,000)	(36,000)	(2,720,000)
Proceeds	1,800,000	210,000	2,010,000	332,000	590,000	49,000	2,981,000
Net cash flow from investing activities	(30,000)	140,000	110,000	(423,000)	(194,000)	13,000	(494,000)
Increase (decrease) in cash	25,000	(80,000)	(55,000)	(30,000)	6,000	1,000	(78,000)
Transfers							
Equipment acquisitions and principal debt service payments	(350,000)	—	(350,000)	350,000	—	—	—
Net increase (decrease) in cash	(325,000)	(80,000)	(405,000)	320,000	6,000	1,000	(78,000)
Cash							
Beginning of year	2,075,000	90,000	2,165,000	88,000	14,000	1,000	2,268,000
End of year	\$ 1,750,000	\$ 10,000	\$ 1,760,000	\$408,000	\$ 20,000	\$ 2,000	\$ 2,190,000

*See footnote on page 1.

EXHIBIT 5D

Sample Religious Organization Notes to Financial Statements

December 31, 19X1

Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Religious Organization have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the organization, the accounts of the organization are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the organization are reported in three self-balancing fund groups as follows:

- Operating funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of operations.
- Plant funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.
- Deposit and loan funds represent resources restricted for loans.
- Annuity and life income funds represent endowment resources of which the organization owns only the principal.

Basis of Presentation

The accompanying financial statements include the assets, liabilities, fund balances, and financial activities of all institutions and organizations providing services at the level of administration above the individual congregation. All significant balances and transactions among the organizations included in the financial statements have been eliminated.

Other Matters

Support arising from contributed services of certain religious personnel has been recognized in the accompanying financial statements. The computation of the value of the contribution of those services represents the difference between the stipends and other amounts paid to or on behalf of the religious personnel and the comparable compensation that would be paid to lay persons if lay persons were to occupy those positions. No computation is made for positions that can be held only by religious personnel.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the expendable operating fund or, if restricted, as deferred amounts until the terms of the restriction have been met.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

Expendable Restricted Resources

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the organization has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

Plant Assets and Depreciation

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Note 2—Investments

Investments are presented in the financial statements in the aggregate at the lower of cost (amortized, in the case of bonds) or fair market value.

	<u>Cost</u>	<u>Market</u>
Operating funds	\$3,800,000	\$4,180,000
Plant funds	260,000	286,000
Endowment funds	1,300,000	1,430,000
Deposit and loan funds	300,000	330,000
Annuity and life income funds	178,000	196,000
	<u>\$5,838,000</u>	<u>\$6,422,000</u>

Investments are composed of the following:

	<u>Cost</u>	<u>Market</u>
Corporate stocks and bonds	\$4,087,000	\$4,495,000
U.S. government obligations	1,168,000	1,284,000
Municipal bonds	583,000	643,000
	<u>\$5,838,000</u>	<u>\$6,422,000</u>

The following tabulation summarizes the relationship between carrying values and market values of investment assets.

	<u>Carrying Value</u>	<u>Market Value</u>	<u>Excess of Market Over Cost</u>
Balance at end of year	<u>\$5,838,000</u>	<u>\$6,422,000</u>	\$584,000
Balance at beginning of year	<u>\$5,769,000</u>	<u>\$6,341,000</u>	572,000
Increase in unrealized appreciation			12,000
Realized net gain for year			<u>357,000</u>
Total net gain for year			<u>\$369,000</u>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended December 31, 19X1.

Note 3—Plant Assets and Depreciation

A summary of plant assets follows:

Land	\$18,300,000
Buildings	41,000,000
Equipment	<u>9,100,000</u>
	68,300,000
Less accumulated depreciation	<u>23,500,000</u>
	<u><u>\$44,800,000</u></u>

Note 4—Long-Term Debt

A summary of long-term debt follows:

8½% mortgage payable in semiannual installments of \$160,000 through 19XX	<u><u>\$ 2,800,000</u></u>
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Note 5—Pension Plan

Effective January 1, 19X0, Sample Religious Organization adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended December 31, 19X1, was a reduction of \$XX,XXX.

A summary of the components of income follows:

Service cost—benefits earned during the year	\$ XX,XXX
Interest cost on projected benefit obligation	XX,XXX
Actual return on plan assets	(XX,XXX)
Net asset gain (loss) deferred for later recognition	(XX,XXX)
Amortization of unrecognized net asset	<u>(XX,XXX)</u>
Net periodic pension income	<u><u>\$ (XX,XXX)</u></u>

Funded status of the plan:

Actuarial present value of benefit obligation	
Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X1	<u>\$ (XX,XXX)</u>
Projected benefit obligation for service rendered to date	(XX,XXX)

Assets available for benefits

Plan assets at fair value, primarily listed stocks and U.S. government securities	<u>XXX,XXX</u>
Plan assets in excess of benefit obligation	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	XXX
Unrecognized net assets at January 1, 19X0, being recognized over XX years	<u>(XX,XXX)</u>
Prepaid pension cost included in other assets	<u><u>\$ XX,XXX</u></u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X1, \$X,XXX of the vested benefit portion of the projected benefit obligation was settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump-sum payments for certain terminated participants. As a result, the organization recognized gains of \$X,XXX in 19X1.

Note 6—Changes in Deferred Restricted Amounts

	Operating Funds	Plant Fund	Annuity and Life Income Fund
Balances at beginning of year	\$ 690,000	\$ 325,000	\$58,000
Additions			
Contributions and bequests	400,000	1,188,000	2,000
Investment income	—	15,000	—
Net gain on investment transactions	—	—	—
	<u>1,090,000</u>	<u>1,528,000</u>	<u>60,000</u>
Deductions—funds expended during the year	<u>220,000</u>	<u>1,200,000</u>	<u>—</u>
Balances at end of year	<u>\$ 870,000</u>	<u>\$ 328,000</u>	<u>\$60,000</u>

Note 7—Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support and revenue, expenses, capital additions, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 8—Commitment

The organization has a lease for certain office facilities that expires December 31, 19X9. The lease contains operating expense and real estate tax escalation clauses. The minimum rental commitment on the lease as of December 31, 19X1, aggregates approximately \$210,000, with annual payments ranging from \$25,000 to \$35,000. Rent expense for the year ended December 31, 19X1, amounted to \$28,000.

Illustrative Auditor's Report—Voluntary Health and Welfare Organization

Independent Auditor's Report

[Addressee]

We have audited the accompanying balance sheets of Sample Voluntary Health and Welfare Service as of December 31, 19X2 and 19X1, and the related statements of support, revenue, and expenses, and changes in fund balances and of functional expenses for the year then ended, December 31, 19X2. These financial statements are the responsibility of the Service's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Voluntary Health and Welfare Service as of December 31, 19X2 and 19X1, and the results of its operations, and the changes in fund balances for the year ended, December 31, 19X2 in conformity with generally accepted accounting principles.

EXHIBIT 6—VOLUNTARY HEALTH AND WELFARE SERVICE

EXHIBIT 6A

Sample Voluntary Health and Welfare Service Balance Sheets

December 31, 19X2 and 19X1

	Current Funds, Unrestricted	
	19X2	19X1
Assets		
Cash	\$2,207,000	\$2,530,000
Investments (Note 2)		
For long-term purposes	2,727,000	2,245,000
Other	1,075,000	950,000
Pledges receivable less allowance for uncollectibles of \$105,000 and \$92,000	475,000	363,000
Inventories of educational materials, at cost	70,000	61,000
Accrued interest, other receivables, and prepaid expenses	286,000	186,000
Total	<u>\$6,840,000</u>	<u>\$6,335,000</u>
Liabilities and Fund Balances		
Accounts payable	\$ 148,000	\$ 139,000
Research grants payable	596,000	616,000
Contributions designated for future periods	245,000	219,000
Total liabilities and deferred revenues	<u>989,000</u>	<u>974,000</u>
Fund balances		
Designated by the governing board for		
Long-term investments	2,800,000	2,300,000
Purchases of new equipment	100,000	—
Research purposes (Note 3)	1,152,000	1,748,000
Undesignated, available for general activities (Note 4)	1,799,000	1,313,000
Total fund balance	<u>5,851,000</u>	<u>5,361,000</u>
Total	<u>\$6,840,000</u>	<u>\$6,335,000</u>
Assets		
	Restricted	
Cash	\$ 3,000	\$ 5,000
Investments (Note 2)	71,000	72,000
Grants receivable	58,000	46,000
Total	<u>\$ 132,000</u>	<u>\$ 123,000</u>
Liabilities and Fund Balances		
Fund balances		
Professional education	\$ 84,000	\$ —
Research grants	48,000	123,000
Total	<u>\$ 132,000</u>	<u>\$ 123,000</u>

(cont.)

EXHIBIT 6—VOLUNTARY HEALTH AND WELFARE SERVICE

EXHIBIT 6A (continued)

Sample Voluntary Health and Welfare Service Balance Sheets

December 31, 19X2 and 19X1

Assets	<u>Land, Building and Equipment Funds</u>	
Cash	\$ 3,000	\$ 2,000
Investments (Note 2)	177,000	145,000
Pledges receivable less allowance for uncollectibles of \$7,500 and \$5,000	32,000	25,000
Land, buildings, and equipment, at cost less accumulated depreciation of \$296,000 and \$262,000 (Note 5)	516,000	513,000
Total	<u>\$ 728,000</u>	<u>\$ 685,000</u>

Liabilities and Fund Balances

Mortgage payable, 8% due 19XX	<u>\$ 32,000</u>	<u>\$ 36,000</u>
Fund balances:		
Expended	484,000	477,000
Unexpended—restricted	212,000	172,000
Total fund balance	<u>696,000</u>	<u>649,000</u>
Total	<u>\$ 728,000</u>	<u>\$ 685,000</u>

Assets	<u>Endowment Funds</u>	
Cash	\$ 4,000	\$ 10,000
Investments (Note 2)	1,944,000	2,007,000
Total	<u>\$1,948,000</u>	<u>\$2,017,000</u>

Liabilities and Fund Balance

Fund balance	<u>\$1,948,000</u>	<u>\$2,017,000</u>
Total	<u>\$1,948,000</u>	<u>\$2,017,000</u>

(See accompanying notes to financial statements.)

EXHIBIT 6B

**Sample Voluntary Health and Welfare Service
Statement of Support, Revenue, and Expenses
and Changes in Fund Balances**

Year Ended December 31, 19X2, with Comparative Totals for 19X1

	19X2				Total All Funds	
	Current Funds		Land, Building and Equipment Funds	Endowment Funds	19X2	19X1
	Unrestricted	Restricted				
Public support and revenue						
Public support						
Contributions (net of estimated uncollectible pledges of \$195,000 in 19X2 and \$150,000 in 19X1)	\$3,764,000	\$162,000	\$ —	\$ 2,000	\$3,928,000	\$3,976,000
Contributions to building fund	—	—	72,000	—	72,000	150,000
Special events (net of direct costs of \$181,000 in 19X2 and \$163,000 in 19X1)	104,000	—	—	—	104,000	92,000
Legacies and bequests	92,000	—	—	4,000	96,000	129,000
Received from federated and nonfederated campaigns (which incurred related fund-raising expenses of \$38,000 in 19X2 and \$29,000 in 19X1)	275,000	—	—	—	275,000	308,000
Total public support	<u>4,235,000</u>	<u>162,000</u>	<u>72,000</u>	<u>6,000</u>	<u>4,475,000</u>	<u>4,655,000</u>
Revenue						
Membership dues	17,000	—	—	—	17,000	12,000
Investment income	98,000	10,000	—	—	108,000	94,000
Realized gain on investment transactions	200,000	—	—	25,000	225,000	275,000
Miscellaneous	42,000	—	—	—	42,000	47,000
Total revenue	<u>357,000</u>	<u>10,000</u>	<u>—</u>	<u>25,000</u>	<u>392,000</u>	<u>428,000</u>
Total support and revenue	<u>4,592,000</u>	<u>172,000</u>	<u>72,000</u>	<u>31,000</u>	<u>\$4,867,000</u>	<u>\$5,083,000</u>
Expenses						
Program services						
Research	1,257,000	155,000	2,000	—	\$1,414,000	\$1,365,000
Public health education	539,000	—	5,000	—	544,000	485,000
Professional education and training	612,000	—	6,000	—	618,000	516,000
Community services	568,000	—	10,000	—	578,000	486,000
Total program services	<u>2,976,000</u>	<u>155,000</u>	<u>23,000</u>	<u>—</u>	<u>3,154,000</u>	<u>2,852,000</u>
Supporting services						
Management and general	567,000	—	7,000	—	574,000	638,000
Fund raising	642,000	—	12,000	—	654,000	546,000
Total supporting services	<u>1,209,000</u>	<u>—</u>	<u>19,000</u>	<u>—</u>	<u>1,228,000</u>	<u>1,184,000</u>
Total expenses	<u>4,185,000</u>	<u>155,000</u>	<u>42,000</u>	<u>—</u>	<u>\$4,382,000</u>	<u>\$4,036,000</u>
Excess (deficiency) of public support and revenue over expenses	407,000	17,000	30,000	31,000		
Other changes in fund balances						
Property and equipment acquisitions from unrestricted funds	(17,000)	—	17,000	—		
Transfer of realized endowment fund appreciation	100,000	—	—	(100,000)		
Returned to donor	—	(8,000)	—	—		
Fund balances, beginning of year	<u>5,361,000</u>	<u>123,000</u>	<u>649,000</u>	<u>2,017,000</u>		
Fund balances, end of year	<u>\$5,851,000</u>	<u>\$132,000</u>	<u>\$696,000</u>	<u>\$1,948,000</u>		

(See accompanying notes to financial statements.)

EXHIBIT 6C

**Sample Voluntary Health and Welfare Service
Statement of Functional Expenses**

Year Ended December 31, 19X2, with Comparative Totals for 19X1

	19X2									
	Program Services					Supporting Services				
	Research	Public Health Education	Professional Education and Training	Community Services	Total	Management and General	Fund Raising	Total	Total Expenses	
									19X2	19X1
Salaries	\$ 45,000	\$291,000	\$251,000	\$269,000	\$ 856,000	\$331,000	\$368,000	\$ 699,000	\$1,555,000	\$1,433,000
Employee health and retirement benefits	4,000	14,000	14,000	14,000	46,000	22,000	15,000	37,000	83,000	75,000
Payroll taxes, etc.	2,000	16,000	13,000	14,000	45,000	18,000	18,000	36,000	81,000	75,000
Total salaries and related expenses	51,000	321,000	278,000	297,000	947,000	371,000	401,000	772,000	1,719,000	1,583,000
Professional fees and contract service payments	1,000	10,000	3,000	8,000	22,000	26,000	8,000	34,000	56,000	53,000
Supplies	2,000	13,000	13,000	13,000	41,000	18,000	17,000	35,000	76,000	71,000
Telephone and telegraph	2,000	13,000	10,000	11,000	36,000	15,000	23,000	38,000	74,000	68,000
Postage and shipping	2,000	17,000	13,000	9,000	41,000	13,000	30,000	43,000	84,000	80,000
Occupancy	5,000	26,000	22,000	25,000	78,000	30,000	27,000	57,000	135,000	126,000
Rental of equipment	1,000	24,000	14,000	4,000	43,000	3,000	16,000	19,000	62,000	58,000
Local transportation	3,000	22,000	20,000	22,000	67,000	23,000	30,000	53,000	120,000	113,000
Conferences, conventions, meetings	8,000	19,000	71,000	20,000	118,000	38,000	13,000	51,000	169,000	156,000
Printing and publications	4,000	56,000	43,000	11,000	114,000	14,000	64,000	78,000	192,000	184,000
Awards and grants	1,332,000	14,000	119,000	144,000	1,609,000	—	—	—	1,609,000	1,448,000
Miscellaneous	1,000	4,000	6,000	4,000	15,000	16,000	21,000	37,000	52,000	64,000
Total expenses before depreciation	1,412,000	539,000	612,000	568,000	3,131,000	567,000	650,000	1,217,000	4,348,000	4,004,000
Depreciation of buildings and equipment	2,000	5,000	6,000	10,000	23,000	7,000	4,000	11,000	34,000	32,000
Total expenses	\$1,414,000	\$544,000	\$618,000	\$578,000	\$3,154,000	\$574,000	\$654,000	\$1,228,000	\$4,382,000	\$4,036,000

(See accompanying notes to financial statements.)

EXHIBIT 6D
Sample Voluntary Health and Welfare Service
Notes to Financial Statements

December 31, 19X2

Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Voluntary Health and Welfare Service have been prepared on the accrual basis and include the accounts of the Service and its affiliated chapters.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the service, the accounts of the service are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the service are reported in three self-balancing fund groups as follows:

- Current funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of operations.
- Land, building, and equipment funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

Expendable Restricted Resources

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the service has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

Plant Assets and Depreciation

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Donated assets are capitalized at fair value. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Other Matters

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the current unrestricted fund or, if restricted, as deferred amounts until the terms of the restriction have been met.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply. Policies concerning donated materials and services are described in Note 6.

Note 2—Investments

Investments are stated at cost. Market values and unrealized appreciation (depreciation) at December 31, 19X2, and 19X1 are summarized as follows:

	(Thousands of Dollars)			
	December 31, 19X2		December 31, 19X1	
	<u>Quoted Market Value</u>	<u>Unrealized Appreciation</u>	<u>Quoted Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Current unrestricted funds				
For long-term purposes	\$2,735	\$ 8	\$2,230	\$ (15)
Other	1,100	25	941	(9)
Current restricted funds	73	2	73	1
Endowment funds	2,125	181	2,183	176
Land, building and equipment fund	184	7	153	8

Interfund transfers include \$100,000 for 19X2, which represents the portion of the realized appreciation (\$25,000 realized in the current year and \$75,000 realized in prior years) in endowment funds that, under the laws of (a state), were designated by the governing board for unrestricted operations. At December 31, 19X2, \$200,000 of realized appreciation was available in endowment funds, which the governing board may, if it deems prudent, also transfer to the unrestricted fund.

If the organization accounts for its investment on the market value basis, the first part of the above note might be worded as follows:

Cost and unrealized appreciation (depreciation) at December 31, 19X2, and 19X1 are summarized as follows:

	(Thousands of Dollars)			
	December 31, 19X2		December 31, 19X1	
	<u>Cost</u>	<u>Unrealized Appreciation</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Current unrestricted funds				
For long-term purposes	\$2,727	\$ 8	\$2,245	\$ (15)
Other	1,075	25	950	(9)
Current restricted funds	71	2	72	1
Endowment funds	1,944	181	2,007	176
Land, building and equipment fund	177	7	45	8

Note 3—Research Grants

The Service's awards for research grants-in-aid generally cover a period of one to three years, subject to annual renewals at the option of the governing board. At December 31, 19X2, \$1,748,000 had been designated by the board for research grants, of which \$596,000 had been awarded for research to be carried out within the next year.

Note 4—Proposed Research Center

The XYZ Foundation has contributed \$50,000 to the Service with the stipulations that it be used for the construction of a research center and that construction of the facilities begin within four years. The Service is considering the construction of a research center, the cost of which would approximate \$2,000,000. If the governing board approves the construction of these facilities, it is contemplated that its cost would be financed by a special fund drive.

Note 5—Land, Buildings and Equipment and Depreciation

Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the assets. At December 31, 19X2, and 19X1, the costs of such assets were as follows:

	<u>19X2</u>	<u>19X1</u>
Land	\$ 76,000	\$ 76,000
Buildings	324,000	324,000
Medical research equipment	336,000	312,000
Office furniture and equipment	43,000	33,000
Automobiles and trucks	<u>33,000</u>	<u>30,000</u>
Total costs	812,000	775,000
Less accumulated depreciation	<u>296,000</u>	<u>262,000</u>
Net	<u>\$516,000</u>	<u>\$513,000</u>

Note 6—Donated Materials and Services

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the organization's program services and in its fund-raising campaigns.

Note 7—Long-Term Debt

Long-term debt at December 31, 19X2, and 19X1 consists of the following:

	<u>19X2</u>	<u>19X1</u>
8% mortgage note payable in semiannual installments of \$5,400 (including principal and interest) to December 31, 19Y0		
collateralized by equipment	<u>\$32,000</u>	<u>\$36,000</u>

Long-term debt maturing in the next five years consists of:

19X3	\$ 4,000
19X4	4,000
19X5	4,000
19X6	4,000
19X7	<u>4,000</u>
Total	<u>\$20,000</u>

Note 8—Leased Facilities

The buildings used by the organization for its community services programs are leased under operating leases. At December 31, 19X2, fifteen such buildings were being leased at an annual cost of approximately \$12,000.

Note 9—Pension Plan

Effective January 1, 19X0, Sample Voluntary Health and Welfare Organization adopted Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions*. Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended December 31, 19X2, was a reduction of \$XX,XXX.

A summary of the components of income follows:

	December 31,	
	19X2	19X1
Service cost—benefits earned during the year	\$ XX,XXX	\$ XX,XXX
Interest cost on projected benefit obligation	XX,XXX	XX,XXX
Actual return on plan assets	(XX,XXX)	(XX,XXX)
Net asset gain (loss) deferred for later recognition	(XX,XXX)	(XX,XXX)
Amortization of unrecognized net asset	(XX,XXX)	(XX,XXX)
Net periodic pension income	<u>\$(XX,XXX)</u>	<u>\$(XX,XXX)</u>
Funded status of the plan:		
Actuarial present value of benefit obligation		
Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X2 and \$XX,XXX in 19X1	\$ (XX,XXX)	\$ (XX,XXX)
Projected benefit obligation for service rendered to date	(XX,XXX)	(XX,XXX)
Assets available for benefits:		
Plan assets at fair value, primarily listed stocks and U.S. government securities	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Plan assets in excess of benefit obligation	XX,XXX	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	XXX	XXX
Unrecognized net assets at January 1, 19X0, being recognized over XX years	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
Prepaid pension cost included in other assets	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X2 and 19X1, \$X,XXX and \$XX,XXX, respectively, of the vested benefit portion of the projected benefit obligation, were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump-sum payments for certain terminated participants. As a result, the school recognized gains of \$X,XXX and \$X,XXX in 19X2, and 19X1, respectively.

Note 10—Postretirement Health Care and Life Insurance Benefits

Sample Voluntary Health and Welfare Organization offers postretirement health care and life insurance benefits to substantially all of its retired regular full-time employees. Sample Voluntary Health and Welfare Organization shares the cost of providing these benefits with all affected retirees. Sample Health and Welfare Organization's cost of providing such benefits is recognized by expensing the insurance programs' premiums as paid. The aggregate amount so expensed totaled \$XX,XXX and \$XX,XXX for the years ended December 31, 19X1, and 19X0, respectively. Sample Voluntary Health and Welfare Organization has made no provision for recognizing the cost of postretirement benefits which may eventually be paid to employees who have not yet retired.

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